

THE IMPACT OF GLOBALISATION AND LIBERALISATION ON THE  
DELIVERY SYSTEM OF THE RESIDENTIAL (HOUSING) SUB-SECTOR OF  
THE REAL ESTATE INDUSTRY IN MALAYSIA

TEO CHEE HAI

This dissertation in the English language is submitted as part of the fulfilment towards  
the award of the degree of  
Master of Science (Land Administration and Development)

Fakulti Kejuruteraan dan Sains Geoinformasi  
Universiti Teknologi Malaysia

OCTOBER 2003

## **ABSTRACT**

The residential (housing) sub-sector, the real estate industry in particular, the Malaysian economy in general, will not be spared of the pressures, challenges and opportunities of globalisation and liberalisation and the march towards a borderless marketplace. If globalisation and liberalisation is indeed inevitable, then the real estate industry, particularly the residential (housing) sub-sector would need to understand the impact that comes with this inevitability. This impact is postulated to include the need to change its mode of delivery of housing stock to the consumers (buyers), migrating from “sell-then-build” to “built-then-sell”.

The aspiration to own one’s home is a priority and Malaysians have placed this as their highest priority compared to travelling, having a premium credit card, buying a car and gaining membership in a prestigious club. The residential (housing) sub-sector has progressed tremendously over the past four decades and has developed into a modern and advanced sector of the national economy.

There is a need to understand the preferences of the home buying public with regards to the mode of delivery of residential (housing) stock in these times when the real estate industry including the residential (housing) sub-sector is facing the pressures, challenges and opportunities of globalisation and liberalisation.

The writer intends to understand the inevitability of globalisation and liberalisation as well as the general preferences of the home buying public towards the delivery system of residential (housing) stock. The hope is that this study will further initiate other studies into the impacts of globalisation and liberalisation on the real estate industry and its sub-sectors. The outcome of this study would be a better understanding of the impact of globalisation and liberalisation on the delivery system of residential (housing) sub-sector of the real estate industry in Malaysia.

## ABSTRAK

Sub-sektor kediaman (perumahan), terutamanya industri ‘real estate’ dan ekonomi Malaysia secara umumnya, tidak akan dikecualikan daripada tekanan, cabaran dan kesempatan dalam globalisasi dan liberalisasi serta langkah menerajui ke arah pasaran yang tidak terbatas. Sekiranya, globalisasi dan liberalisasi adalah suatu yang amat penting, maka industri ‘real estate’, khususnya sub-sektor kediaman (perumahan) perlulah memahami impak tersebut. Impak ini telahpun disahkan bahawa perlunya mengubah mod penghantaran bagi stok perumahan kepada pembeli, daripada ‘jual-baru-bina’ kepada ‘bina-baru-jual’.

Memilik sebuah rumah merupakan cita-cita seseorang dan rakyat malaysia telahpun meletakkan ini sebagai keutamaan berbanding daripada yang lain, misalnya melancong, mempunyai kad kredit premium, membeli kereta dan memperoleh keahlian kelab mewah. Sub-sektor kediaman (perumahan) telah maju dengan pesatnya dalam empat dekad ini dan juga telah berkembang menjadi satu-satu sektor ekonomi kebangsaan yang moden dan maju.

Adalah penting untuk memahami pilihan pembelian rumah bagi orang awam, dengan mengambilkira cara penghantaran bagi stok kediaman (perumahan) apabila industri ‘real estate’ termasuk sub-sektor kediaman (perumahan) menghadapi tekanan, cabaran dan kesempatan akibat daripada globalisasi dan liberalisasi.

Penulis bercadang memahami keperluan globalisasi dan liberalisasi serta pilihan umum pembelian rumah bagi orang awam menuju ke sistem penghantaran stok kediaman (perumahan). Kajian ini diharap dapat menggalak lebih banyak kajian lagi berkaitan dengan impak globalisasi dan liberalisasi dalam industri ‘real estate’ dan juga sub-sektornya. Hasil kajian ini akan memberikan lebih pemahaman mengenai impak globalisasi dan liberalisasi dalam sistem penghantaran bagi sub-sektor kediaman (perumahan) dalam industri ‘real estate’ di Malaysia.

## CONTENTS

Chapter	Contents	Page
CHAPTER I	INTRODUCTION	
1.1	Housing The Nation	3
1.2	Globalisation and Liberalisation	6
1.2.1	World Trade Organisation	6
1.2.2	Asia Pacific Economic Caucus	10
1.2.3	ASEAN Free Trade Area	12
1.2.4	Domestic Response	13
1.3	Impact on the Real Estate Industry	14
1.4	Aims and Objective of the Study	15
1.5	Scope and Limitations of the Study	18
1.6	Structure of the Thesis	19
CHAPTER II	LITERATURE REVIEW	
2.1	Globalisation	21
2.1.1	Benefits of Open Markets?	26
2.1.1.1	What benefits do open markets bring?	26
2.1.1.2	What do closed markets do?	27
2.1.2	The Global Situation	29
2.1.3	The Level Playing Field	30
2.1.4	The Issue of Trade	31
2.1.4.1	Commodity Prices and Terms of Trade	33
2.1.4.2	Trade Liberalization	36
2.1.4.3	The Multilateral Trading System	40
2.1.4.4	Implementation of WTO Agreements	43

<b>Chapter</b>	<b>Contents</b>	<b>Page</b>
	2.1.4.5 Issues Concerning WTO Agreements	44
	2.1.5 The Issue of Finance	46
	2.1.5.1 Short-term Capital Flows	47
	2.1.5.2 Response to Debt and Financial Crises	48
	2.1.5.3 Transparency and Regulation of International Financial Markets	49
	2.1.6 Challenges of Liberalisation	51
2.2	Real Estate Services	53
	2.2.1 United Nations Statistics Division Central Product Classification Version 1.1	53
	2.2.2 Real Estate Services	56
	2.2.3 Construction Services	61
	2.2.4 Liberalisation and the Real Estate Services	63
2.3	Housing the Nation	64
2.4	Mode of Delivery of Residential (Housing) Stock	74
<b>CHAPTER III</b>	<b>DATA COLLECTION</b>	
3.1	The Strategy for the Data Collection Programme	81
3.2	The Scope of the Data Collection Programme	81
3.3	The Structure of the Questionnaire	82
	3.3.1 Preamble of the Questionnaire	82
	3.3.2 Section A of the Questionnaire	82
	3.3.3 Section B of the Questionnaire	82
	3.3.4 Section C of the Questionnaire	83
	3.3.5 Section D of the Questionnaire	84
	3.3.6 Section E of the Questionnaire	84
	3.3.7 Section F of the Questionnaire	85
3.4	The Questionnaire	85

<b>Chapter</b>	<b>Contents</b>	<b>Page</b>
CHAPTER IV	FINDINGS AND DISCUSSION	
4.1	The Responses	86
4.1.1	Introduction	86
4.1.2	Respondent's Background	88
4.1.3	Residential Property Ownership	89
4.1.4	House Buying Preferences	90
4.1.5	General Awareness of Market Liberalisation	92
4.1.6	Respondent's Opinions	94
4.1.7	Respondent's Voluntary Comments	95
4.2	Key Findings	98
4.2.1	Aim of The Study	99
4.2.2	The Liberalisation Process	99
4.2.3	Home Buying Preferences	100
	4.2.3.1 Sell-then-Build	100
	4.2.3.2 Modified Sell-then-Build	100
	4.2.3.3 Build-then-Sell	103
4.2.4	Migrating towards "Build-then-Sell" Concept	105
4.3	Conclusion	106
CHAPTER V	CONCLUSION	
5.1	Introduction	108
5.2	Further Studies	110
5.3	The Way Forward	111
	5.2.1 Trade Negotiations	112
	5.2.2 Maintaining Competitiveness	113
5.4	Epilogue	113

## **APPENDICES**

<b>Appendix</b>	<b>Contents</b>
I	Questionnaire
II	Summary of Responses to the Questionnaire
III	United Nations Statistics Division Central Product Classification Version 1.1
IV	Status of Malaysia's GATS Commitments and Offers to Date under AFAS for the Identified Common Sub-Sectors
V	Potential Sector for Liberalisation under Like Minded Countries Approach (AFAS 4 <sup>th</sup> Round of Negotiations)
VI	Potential Sector for Liberalisation under Common Sub-sector Approach (AFAS 4 <sup>th</sup> Round of Negotiations)
VII	The Future Direction and Strategies to Enhance Competitiveness in the Local Automotive Industry (16 December 2002)
VIII	World Trade in 1999 (Statistics)

## ABBREVIATIONS

ABAC	APEC Business Advisory Council
AFAS	ASEAN Framework Agreement on Services
AFTA	ASEAN Free Trade Agreement
APEC	Asia Pacific Economic Caucus
ASEAN	Association of South East Asian Nations
CPC	Central Product Classification
EU	European Union
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investments
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariff and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalised System of Preferences
IMF	International Monetary Fund
IPR	Intellectual Property Rights
LDC	Least Developed Countries
MFN	Most Favoured Nation
NAPIC	National Property Information Centre
NEAC	National Economic Action Council
OECD	Organisation of Economic Co-operation and Development
PERC	Political and Economic Risk Consultancy
SOM	Senior Officials Meeting
TNC	Transnational Corporation
TRIMS	The Agreement on Trade-Related Investment Measures



TRIPS	The Agreement on Trade-Related Aspects of Intellectual Property Rights
UNCED	United Nations Conference on Environment and Development
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programmes
WTO	World Trade Organisation

## TABLES

<b>Table No.</b>	<b>Contents</b>	<b>Page</b>
1.1	World Trade in 2000	8
1.2	Share of Trade in Commercial Services (1999)	9
2.1	Allocation for Public Housing in National Development Plan	66
2.2	Prices of Low-cost House	70
2.3	Prices of Medium-cost House	70
2.4	Targets and Achievements of Public and Private Housing Sectors under the Seventh Malaysia Plan (1996 – 2000)	71
2.5	Housing Needs According to States, 2001 – 2005	73

## CHARTS

<b>Chart</b>	<b>Contents</b>	<b>Page</b>
4.1	Gender of the Respondents	86
4.2	Age Groups of the Respondents	87
4.3	Nature of the Respondents' Jobs	88
4.4	Preferences of the Respondents	91
4.5	General Awareness	93
4.6	Mode of Delivery of Residential (Housing) Properties	94
4.7	Opinion on Mode of Delivery of Residential (Housing) Property	95
4.8	Age Bracket of Respondent Favouring Modified Sell-then-Build	101
4.9	Annual Income Bracket of Respondent Favouring Modified Sell-then-Build	102
4.10	Age Groups of Respondents Favouring Built-then-Sell	103
4.11	Job Description of Respondents Favouring Built-then-Sell	104

## CHAPTER I

### INTRODUCTION

*Menjelang tahun 2020, Malaysia boleh menjadi sebuah negara yang bersatu padu, dengan masyarakat Malaysia yang mempunyai keyakinan diri dan mempunyai nilai-nilai moral dan etika yang utuh, hidup dalam masyarakat yang demokratis, liberal lagi bertolak-ansur, penyayang, adil dan saksama ekonominya, progresif dan makmur, dan sepenuhnya menguasai ekonomi yang mampu bersaing, dinamis, kukuh serta mempunyai daya ketahanan. (Dr. Mahathir bin Mohamad)<sup>1</sup>*

28<sup>th</sup> February 1991 is a momentous day, the day Dr. Mahathir bin Mohamad, *Yang Amat Berhormat (Y.A.B.) Perdana Menteri Malaysia* (The Right Honourable Prime Minister of Malaysia), in his working paper to the inaugural meeting of the Malaysian Trade Council (*Majlis Perdagangan Malaysia*) challenged the nation to attain developed status by the year 2020 with a clearly defined and concise vision statement. The Statement clearly expounded the challenges and opportunities faced by this developing nation, laid out the objectives and outlined various initiatives for the consideration of the Council and the Nation in particular. That vision is now commonly referred to as *Wawasan 2020* or Vision 2020. For the first time, the nation has a clearly defined and concise vision that will further guide the nation in its

---

<sup>1</sup> Dr. Mahathir Mohamad, "Malaysia: Melangkah Ke Hadapan, Kertas Kerja yang dibentangkan oleh Y.A.B. Perdana Menteri di Mesyuarat Pertama Majlis Perdagangan Malaysia, 28 February 1991", Jabatan Pencetakan Negara

quest for developed status. This is important to a developing country like Malaysia and a clear and concise vision will lead to the formulation of appropriate policies and action plans. Man and Nations need vision.

In this working paper, *Y.A.B. Perdana Menteri Malaysia* at the inaugural meeting of *Majlis Perdagangan Malaysia* opined that for Malaysia to be truly developed, the nation must overcome nine basic strategic challenges and the ninth challenge is –

*Cabaran kesembilan adalah untuk mencapai sebuah masyarakat yang makmur, dengan ekonomi yang mampu menghadapi persaingan, bersifat dinamis, teguh dan berdaya tahan. (Dr. Mahathir bin Mohamad)<sup>2</sup>*

Before the conclusion of the much famed Uruguay Round of Trade Negotiations and the formation of the World Trade Organisation (WTO) and before globalisation and liberalisation became buzzwords internationally and domestically, *Y.A.B. Perdana Menteri Malaysia* and the leadership of the day had the foresight to know that a key challenge before the nation is to ensure a prosperous society with an economy that is able to face competition, that is dynamic, strong and resilient. Malaysia's economy is closely integrated with the global economy.

In 2000, Malaysia was ranked the 18<sup>th</sup> largest exporter and 18<sup>th</sup> largest importer (40<sup>th</sup> largest exporter and 34<sup>th</sup> largest importer in 1973).

Since that the unveiling of Malaysia's Vision 2020 back in 1991, we have observed that the international marketplace is being increasingly interconnected, internetworked and interdependent, primarily driven by the need to trade and the push by the World Trade Organisation. The domestic economy is also being liberalised to harness the opportunities presented and readied to meet and withstand the challenges of an increasingly globalise marketplace and borderless world. The

---

<sup>2</sup> Dr. Mahathir Mohamad, "Malaysia: Melangkah Ke Hadapan, Kertas Kerja yang dibentangkan oleh Y.A.B. Perdana Menteri di Mesyuarat Pertama Majlis Perdagangan Malaysia, 28 February 1991", Jabatan Pencetakan Negara

real estate industry in general, the residential property development sector in particular will not be spared of these challenges and opportunities.

## 1.1 HOUSING THE NATION

The aspiration to own one's home is reflected in the pride and enthusiasm of house owners in welcoming guests around newly acquired houses. House warming and thanksgiving functions (*kenduri*) are very much part of our cultural and neighbourly landscape. This attitude is recognised by the Government and reflected in all national development plans. The provision of adequate and affordable housing remains the priority of every Government of the day in Malaysia.

In 1997, in a survey conducted by a news magazine to find out more about Asian values, respondents from Hong Kong, Indonesia, the Philippines, Singapore, Taiwan, Thailand and Malaysia all placed their highest priority on buying a home or other property compared to travelling, having a premium credit card, buying a car and gaining membership in a prestigious club as the item they most aspired for. The survey indicated that seven out of ten Southeast Asians polled (72 percent) ranked home ownership as their first choice in the list of things they aspire<sup>3</sup>.

Y.A.B. Perdana Menteri Malaysia, in his working paper presented to the inaugural meeting of Majlis Perdagangan Malaysia further opined that -

*Kita mesti menyediakan kemudahan yang secukupnya dari segi tempat berlindung, perkhidmatan kesihatan dan segala keperluan asas yang lainnya. (Dr. Mahathir bin Mohamad)*<sup>4</sup>

Malaysia has a land area of 329,733 sq kilometres of which 131,573 sq kilometres are within Peninsular Malaysia. It has a population of 22.9 million

<sup>3</sup> Time Money Monthly, "Asians and Their Money", September, 1997

<sup>4</sup> Dr. Mahathir Mohamad, "Malaysia: Melangkah Ke Hadapan, Kertas Kerja yang dibentangkan oleh Y.A.B. Perdana Menteri di Mesyuarat Pertama Majlis Perdagangan Malaysia, 28 February 1991", Jabatan Pencetakan Negara

(2000), which gives a density of 69.4 persons per sq. kilometre. Out of this population of 22.9 million 33.9% are below 15 years old, 62.2% between 15 and 64 years old and 3.9% are 65 and above years old. Housing this young nation will continue to pre-occupy the energy of the nation's leaders in the foreseeable future. Housing the nation will continue to be a priority of the Government of the day for a foreseeable future.

In 1998, the National Economic Action Council (NEAC) opined that for residential property, the supply of houses has fallen short of demand by 15 percent per annum. This assessment was arrived at when the nation was reeling from the adverse impact of an economic recession that has become known as the Asian Financial Crisis. The assessment was made when the economic planners were confronted with massive property overhang that, among others, posed a serious threat to the well being of the financial fabric of the nation. It remains a challenge for developers to build houses within the affordable range.

The real estate industry in Malaysia has progressed, particularly over the past four decades and has developed into a modern and advanced sector of the economy. The scope of real estate development has progressed from traditional housing projects to condominiums to gated communities, townships, towering and glittering towers and skyscrapers, shopping malls, stunning golf courses, beautiful and award winning resorts, theme parks and industrial estates.

The First Malaysia Plan implemented in 1966 with the initial objective of providing housing as a component of social services. It was during this period of time that the first formal and structured housing programmes were undertaken to provide affordable housing particularly in meeting the needs of the poor. As population continue to grow coupled with rural urban migration, housing programmes in urban areas were further accelerated with particular emphasis given to low-cost housing in subsequent Malaysia Plans. The collapse of commodity prices and the economic recession that followed in mid-1980's, the Government intensified efforts to boost the flailing economy through the promotion of capital intensive and export oriented industries. These efforts included the relaxation of regulations and restrictions imposed on foreign purchasers.

The real estate industry gained momentum as the economy began to recover from the recession and in the early 1990's, the industry saw a growing maturity in terms of concepts, designs, quality and range of products. During this period, private sector developers successfully achieved the target of 217,000 units of low-cost houses as envisioned under the Sixth Malaysia Plan (1991 – 1995). This period also saw a proliferation of developers and schemes with many mega schemes, resorts and townships launched. The industry again suffered with the onset of the Asian Financial Crisis that hit the region in 1997. Till today, the real estate industry still suffers from massive property overhang.

The National Economic Action Council in August 1998 observed that among high-rise units, there is an oversupply of condominiums, especially with more units coming on-stream. According to estimates compiled by the Council, the supply of non-residential properties will increase dramatically over the next three years. In the Klang valley alone, the Council estimated that the current office space will increased by two-thirds, while the capacity for retail space and hotel rooms will double. The Council further observed that with this oversupply and coupled with the economic slowdown, rentals will fall and the properties will drop below replacement cost, which will cause concern to investors, developers and financiers.

This prompted the NEAC, in its National Economic Recovery Plan to call upon State Governments to exercise a great deal of restraint in land conversions, and that such conversions should be in accordance with the approved (or gazetted) structure plan, which is revised every 5 – 10 years. The Council also call upon the Federal Government to monitor the land conversion process. Proper monitoring of land conversion can also help to control the oversupply of commercial properties.<sup>5</sup>

In a globalised and liberalised environment where there exist the free flow of investments and services together with the availability and movement of goods and commodities across borders, the question remains as to how the local residential

---

<sup>5</sup> National Economic Recovery Plan – Agenda for Action, National Economic Action Council, Economic Planning Unit, Prime Minister's Department, Malaysia, August 1998, Pencetakan Nasional Malaysia Berhad



(housing) sub-sector will fare in the midst of these pressures and challenges with its benefits and pitfalls. Surely there will be multinationals with enough capacity (especially financially) to embark on major residential (housing) developments and programmes that could significantly alter the local residential (housing) landscape and may even bring about the earlier realisation of housing the nation.

Could access to capacities (especially financial and technological capacities) and capabilities provide multinationals with the economies of scale that is more global in its reach, to significantly alter the residential (housing) sub-sector including the mode of delivery of residential (housing) stocks in Malaysia?

## **1.2 GLOBALISATION AND LIBERALISATION**

Globalisation is motivated by the economic theory that stems from Adam Smith (1723-1790) that an unrestrained market will result in the most efficient pattern of productive activity.

The term “globalisation” and “liberalisation” is used, in this thesis, synonymously and interchangeably and taken to refer to the process of becoming and making worldwide an item or activity. Specifically, the two words will be taken to refer to attaining the goal of trading (free flow of goods, investment and services) in a borderless world that would result in a global marketplace with market forces able to allocate scarce resources on a global scale.

### **1.2.1 World Trade Organisation**

The World Trade Organization is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world’s trading nations and

ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

The World Trade Organisation is a rules-based, member-driven organisation – member countries make all decisions and the rules are the outcome of negotiations among member countries. Some of the facts about the World Trade Organisation -

Established on:	1 <sup>st</sup> January 1995
Created by	Uruguay Round Negotiations (1986–94)
Membership	146 Countries (as at 4 <sup>th</sup> April 2003)
Budget	154 million SFr (for 2003)
Secretariat Staff	550
Director General	H.E. Supachai Panitchpakdi (Thailand)

The functions of the World Trade Organisation can be summarized as follows

-

- Administering WTO Trade Agreements
- Forum for Trade Negotiations
- Handling Trade Disputes
- Monitoring National Trade Policies
- Technical Assistance and Training for Developing Countries
- Cooperation with other International Organisations

<b>Table No. 1.1 - World Trade in 2000</b>		
Country/Group	Exports	Imports
World	US\$ 6.33 Trillion	US\$ 6.51 Trillion
Developed Countries	US\$ 4.04 Trillion 63.9%	US\$ 4.38 Trillion 67.3%
Developing Countries	US\$ 2.03 Trillion 32.1%	US\$ 1.89 Trillion 29.1%
Eastern Europe	US\$ 0.25 4.0%	US\$ 0.23 Trillion 3.6%
(Intra ASEAN trades accounts for a mere 1.5% of the World's total trade)		
Source: United Nations Statistics Division		

The General Agreement on Trade in Services (GATS) is considered by the World Trade Organisation to be among its most important agreement. The accord came into force in January 1995, is the first and only set of multilateral rules covering international trade in services. In the trade liberalization process, each World Trade Organisation Member Country schedules her national commitments for services for which she wishes to guarantee access to foreign services suppliers. All commitments apply on a non-discriminatory basis to all other World Trade Organisation Member Countries. Member Countries are free to choose the services to commit. The schedule of commitments can also limit the degree to which service providers can operate in her domestic market.

The General Agreement on Trade in Services covers all internationally traded services with two exceptions of services provided to the public in the exercise of Government authority and air transport traffic rights and all services related to the exercise of traffic rights.

In 1999, trade in commercial services accounts for approximately 20% of the World's trade and the respective shares are as follows -

<b>Table No. 1.2 - Share of Trade in Commercial Services (1999)</b>	
Developed Countries	68%
Developing Countries	32%
Asia	20%
(Of the total commercial services trade, it is interesting to note that Professional and Business Services accounts for approximately 40% of the trade in services)	
Source: United Nations Statistics Division	

Of the total commercial services trade, it is interesting to note that Professional and Business Services accounts for approximately 40% of the trade in services

The General Agreement on Trade in Services defines four ways in which a service can be traded, known as “modes of supply” –

- “cross-border supply” (services supplied from one country to another) [mode 1]
- “consumption abroad” (consumers from one country making use of a service in another country) [mode 2]
- “commercial presence” (the establishment of subsidiaries or branches to provide services in another country) [mode 3]
- “movement of natural persons” (individuals travelling from their own country to supply services in another) [mode 4]

### **1.2.2 Asia Pacific Economic Caucus**

The Asia Pacific Economic Caucus (APEC) was established in 1989 in response to the growing interdependence among Asia-Pacific economies. Begun as an informal dialogue group, APEC has since become the regional vehicle for promoting open trade and practical economic cooperation. APEC is the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region. Its goal is to advance Asia-Pacific economic dynamism and sense of community.

APEC has a membership of 21 economic jurisdictions, a population of over 2.5 billion and a combined Gross Domestic Product (GDP) of 19 trillion US dollars accounting for 47 percent of world trade. It is a unique forum operating on the basis of open dialogue and equal respect for the views of all participants.<sup>6</sup>

As the primary regional vehicle for promoting trade and investment and practical economic cooperation, the end result of APEC's activities includes increased employment opportunities and community development. APEC is working to achieve what are referred to as the 'Bogor Goals' of free and open trade and investment in the Asia-Pacific by 2010 for developed economies and 2020 for developing economies.

APEC has identified three specific areas that are crucial to achieving the Bogor Goals. These three pillars are:

- Trade and Investment Liberalisation
- Business Facilitation, and
- Economic and Technical Cooperation.

Since its inception in 1989, APEC has helped to reduce tariffs and other barriers to trade in the Asia-Pacific region. APEC has also worked to ensure the safe and efficient movement of goods, services and people across the borders in the region through facilitating practical policy formulation in APEC economies and by facilitating economic and technical cooperation

APEC operates by consensus. In 1991, members committed themselves to conducting their activities and work programs on the basis of open dialogue with equal respect for the views of all participants.

The APEC Chair, which rotates annually among members, is responsible for hosting the annual ministerial meeting of foreign and economic ministers. At the 1989 Canberra Ministerial Meeting, it was agreed that it would be appropriate that every alternate ministerial meeting be held in an ASEAN economy. Senior Officials Meetings (SOM) are held regularly prior to every ministerial meeting. APEC senior officials make recommendations to the Ministers and carry out their decisions. They oversee and coordinate, with approval from Ministers, the budgets and work programs of the APEC fora. APEC member economies have hosted a number of other ministerial meetings for Ministers of education, energy, environment and sustainable development, finance, human resources development, regional science and technology cooperation, small and medium enterprises, telecommunications and information industry, trade, and transportation.

In 1995 APEC Economic Leaders established a permanent council composed of up to three senior business people from each member economy to provide advice on the implementation of APEC action plans and on other specific business/private sector priorities. Chairmanship of APEC Business Advisory Council (ABAC) rotates each year according to which economy chairs APEC. The 2002 ABAC Chair is Mr Javier Prieto, Senior Vice President for External Affairs for CEMEX of Mexico.

### 1.2.3 ASEAN Free Trade Area

The leaders of the respective ASEAN 10 member countries have committed their countries to the ASEAN Framework Agreement on Services (AFAS), signed by the ASEAN Economic Ministers at the 5<sup>th</sup> ASEAN Summit in Bangkok in December 1995. Some of the objectives of the ASEAN Framework Agreement on Services are

- To enhance cooperation in services amongst member countries in order to *improve the efficiency and competitiveness, diversify production capacity and supply and distribution* of services of their service providers *within and outside* ASEAN
- To *eliminate* substantially restrictions to trade in services amongst member countries
- To *liberalise* trade in services by expanding the depth and scope of liberalization beyond those undertaken by member countries under the General Agreement on Trade in Services (GATS-Plus Principle)

ASEAN Vision 2020 was signed by the heads of Government of ASEAN Member Countries in December 1997 in Kuala Lumpur committing their respective countries to fully implement the ASEAN Free Trade Area and to accelerate the liberalization of Trade in Services within ASEAN. ASEAN Vision 2020 targets to achieve free flow of services within ASEAN by 2020 and embarked on a process of progressive liberalization

At the 33rd ASEAN Economic Ministers Meeting in Hanoi in September 2001, The Ministers welcomed the conclusion of the third package of commitments (from the second round of negotiations 1999 - 2001) and the Protocol to implement the package was signed in Negara Brunei Darussalam at the 7th ASEAN Summit in 2001. The ASEAN Economic Ministers also launched the third round of negotiations beginning 2002 to conclude in 2004 covering all sectors and modes of supply.

#### 1.2.4 Domestic Response

Malaysia is an active participant in the World Trade Organization and regionally, in APEC and the ASEAN Free Trade Area including the ongoing negotiations within the ASEAN Framework Agreement on Services. The Council on Trade in Services within the World Trade Organisation has ongoing work programme and meetings to further forward its primary role in liberalising world trade.

Malaysia has embarked on its journey to be part of the global marketplace with various policies and initiatives that are evident. In recent years, the country has seen substantial foreign investment in two of the nation's premier ports, Westport and Port of Tanjung Pelepas. The magnificent Kuala Lumpur International Airport is being promoted as the regional transportation hub. Efforts are well underway to turn Malaysia into a regional centre for education as evidence by the increasing number of overseas enrolment, particularly in the private institutions of higher learning. There are also increasing number of branch campuses of foreign universities. Tourism Malaysia is running a new series of advertisement campaign over television and their new tag line is "*Malaysia – Truly Asia*".

Malaysia's Ministry of International Trade and Industry opined through its website the following –

- the Malaysian economy is highly dependent on exports.
- Malaysia needs to seek better access through multilateral trade liberalisation
- trade expansion, facilitated by rules and liberal environment contributes to overall economic growth



Malaysia is the 18<sup>th</sup> largest trading nation (2000) and the Ministry of International Trade and Industry has opined that the multilateral process would allow Malaysia to seek better market access through negotiations and to use trade remedies to counter unfair trade practices.

Malaysia as a member of the World Trade Organization, the Asia Pacific Economic Caucus and the ASEAN Free Trade Area is committed towards services liberalization (real estate services is a classified service) on a progressive and managed basis.

It must be recognized that there are pressures including the pressures from the international marketplace and the march towards the liberalization of trade and services driven by the World Trade Organisation. According to the Institute of Policy Studies (2000), -

- over 40,000 corporations in the world whose activities cross national boundaries
- of the largest 100 economies, 51 are global corporations, 49 are countries
- the top 200 corporations' combined sales are bigger than the combined economies of all countries minus the biggest 9.
- most of the 200 of these global corporations are larger than many national economies, control well over a quarter of the world's economic activity

### **1.3 IMPACT ON THE REAL ESTATE INDUSTRY**

The real estate industry will not be spared of these pressures and the impact of globalisation and liberalisation within the contexts of AFTA and WTO. The

People's Republic of China, a recent entrant into the World Trade Organisation had scheduled specific commitments in the Real Estate Services Sector.

If globalisation and liberalisation is indeed inevitable, then the real estate industry, particularly the residential sector would need to understand the impact that comes with this inevitability. This impact is postulated to include the need to change its mode of delivery of housing stock to the consumers (buyers), migrating from "sell then build" to "build then sell".

Of late, the sector has witnessed a few developers venturing into "build then sell" concept of residential development particularly in the Klang Valley. It is also observed that these developers are having a measure of success, though many argued that the housing stock on offer is considered low in numbers compared with the usual housing starts and launches.

#### **1.4 AIMS AND OBJECTIVE OF THE STUDY**

The fascination with this particular topic of study dated back to 1999 when "globalisation and liberalisation" and "the dawn of the new millennium" were the buzzword of the day. The writer had the privilege to be appointed to and participated in the workings of various national councils, committees and forums, considering the myriads of issues facing the nation at large, the real estate industry in general, the surveying profession in particular. A considerable amount of information, some of which are confidential and thus will not be utilised in this study and published, were gathered and collated up to this day.

The topic is complex and highly emotional. However, some form of a structured study, though cursory, is better than none and it is the hope that this study would bring about a better understanding of the issue at hand. Thus the study will allow this interest and fascination with this topic to be studied in a more systematic and structured manner.

According to the 2002 Property Market Report, released by the National Property Information Centre (NAPIC), loans for the purchase of residential properties increased by 17.6% to RM. 96.7 billion as at the end of September 2001 forming the bulk of the increase in the broad property loans. This is a double-digit growth in residential property loans on the back of what was considered a year of moderate activity in the property market. The residential sector has been observed to continue to remain the main sector driving the property market, contributing 70.1% of total property transactions. However, the number of property transactions, which totalled 231,394 in 2002, is 4.6% lower than in 2001 and has a combined value of RM. 38.6 billion.

It is the observation that the real estate industry in general, the residential (housing) sector in particular, will not be spared of the impact of globalisation and liberalisation within the contexts of ASEAN Free Trade Area and the global free trade driven by the World Trade Organisation. Malaysia is also actively promoting bilateral trade agreements alongside multilateral trade agreements. If globalisation and liberalisation is indeed inevitable, then the industry, particularly the residential (housing) sector would need to understand the impact that comes with this inevitability. The impacts are speculated to include a need for the industry to review its mode of development and delivery and to explore migrating towards the “build then sell” concept.

The development of residential properties in Malaysia is based on the concept of “sell then build”. Typically, buyers will scrutinise specifications, plans and drawings as well as graphic impressions of the completed residential units before committing to a purchase. These specifications, plans and drawings as well as graphic impressions normally carry the usual small prints to the effect that they are subject to construction and changes. In many instances, this mode of housing development sells a dream but delivers anguish and at times nightmare.

Over the years, the residential property market has been plagued with massive property overhang (especially during the recent economic downturn), mismatch, abandoned housing projects (especially during the 1986 – 1988 recession). The residential property market is not spared the cycle of boom and bust.

However, there are efforts, particularly on the part of the Government, in trying to mitigate the situation.

During these few years of challenging economic horizon, the real estate industry has witnessed a number of its more established developers, though few, venturing into “build-then-sell” concept of delivery of residential (housing) stock particularly in the Klang Valley. It is also observed that these developers are having a measure of success, though many argued that the housing stock on offer is considerably few in numbers compared with the usual housing starts and launches. However, the majority of housing property developers has yet to embrace this concept.

The objectives of this study are –

- (1) To review the inevitability of globalisation and liberalisation on the residential (housing) sector of the real estate industry;
- (2) To identify the preferences of the home owning public vis-à-vis the method of delivery of housing stocks; and
- (3) To study the preference for the residential (housing) sector to adopt “build-then-sell” concept of delivery of housing stock.

According to Goh Ban Lee (1997), most developers, professional consultants and builders are against the “built-then-sell” mode of delivery of residential (housing) stock claiming that it would increase costs to the buyers. The “built-then-sell” mode of delivery would mean that the developers would have to have adequate financial capacity to cover the development until they are completed and put on the market for sale.

The writer intends to understand the inevitability of globalisation and liberalisation and the general preferences of the public-at-large, a public that aspire to own one’s home towards the “built-then-sell” concept of delivery of residential (housing) stock.

## 1.5 SCOPE AND LIMITATIONS OF THE STUDY

This study intends to objectively review the debates on the merits and demerits of globalisation and liberalisation vis-à-vis the real estate industry, the residential (housing) sub-sector in particular. The study intends to present as balance as it is possible the varying viewpoints and opinions surrounding the passionate and emotional debates on globalisation and liberalisation.

It should be appreciated that there is currently very minimal study on the impacts of globalisation and liberalisation on the real estate industry and its sub-sectors. The NEAC is currently formulating a National Strategy on Trade Liberalisation for Professional Services and real estate services are a component of Professional Services. The formulation of this National Strategy, which is expected to be drafted by the fourth quarter of 2003, should include some form of study on the threats, opportunities and impact of globalisation and liberalisation on the Professional Services in Malaysia.

This study will involved seeking opinions and statement of preferences from a group of respondents solicited by way of a questionnaire. Though the targeted respondents are the general public from within the Klang Valley, the questionnaire will also be sent to a group of 21 real estate industry professionals, namely, property consultants, registered and practising valuers, registered estate agents and developers. However, no attempts will be made to seek the identity of the respondents.

It is hoped that this study will initiate further studies into the impact of globalisation and liberalisation on the real estate industry and its sub-sectors. This study will represent one of the early efforts to gather and collate opinions and preferences from the general public, though only restricted to urban Klang Valley residents, on the possible impacts globalisation and liberalisation may have on the delivery system of residential (housing) stock in Malaysia.

## 1.6 STRUCTURE OF THE THESIS

Phillips and Pugh (2000) said that a thesis should be no longer than it needs to be in order to report what you have done, why you did it and what you have concluded from the results of your work. They further added that one might adopt the maxim that if you can say it briefly you should do so; but not if this means using lots of long words and complex sentence structures.

A thesis should contain a review of relevant literature, a description of what has been done, what came out of this, a discussion of these results and finally some conclusions that can be drawn and suggestions for future work. Philips and Pugh (2000) stated baldly that these sections are: -

- (1) Introduction (including aims)
- (2) Literature Survey
- (3) Method
- (4) Results
- (5) Discussion
- (6) Conclusions

The structure of this thesis is as follows –

Chapter One (Introduction) will discuss and overview the general issues that was considered leading to the selection of this particular topic of study. The chapter will serve as the introduction to the thesis as well as discussing the aim of this study.

Chapter Two (Literature Review) will seek to understand globalisation and the myriad of issues and debates surrounding globalisation, particular the issues surrounding trade and finance. This chapter will also attempt to understand the historical perspective of the residential (housing) sector and attempt to explore the mode of delivery of housing stock in the country.

Chapter Three (Data Collection) will outlined the methodology and scope of the data collection programme including a discussion on the appropriateness of this selected approach.

Chapter Four (Findings and Discussion) will analyse the data collated from the data collection programme, discussed the results of the analysis and will also present the findings attained.

Chapter Five (Summary and Conclusion) will conclude the thesis, summarises the key issues and discussed the conclusion arrived at. The chapter will also include relevant and pertinent observations gathered during the course of the research as well as suggesting, if any, further scope of study.

## CHAPTER II

### LITERATURE REVIEW

#### 2.1 GLOBALISATION

Globalisation is motivated by the economic theory that stems from Adam Smith (1723-1790) that an unrestrained market will result in the most efficient pattern of productive activity. The Oxford Advance Learner's Dictionary defines global as covering or affecting the whole world; worldwide<sup>1</sup>. Globalisation is thus, simplistically, the process of becoming and making worldwide an item or activity. Globalisation is a process affecting every country in the World and this process is regulated by the World Trade Organization whose declared goal is that of "*trade in a borderless world*". It is opined that this would result in a global marketplace with market forces able to allocate scarce resources on a global scale.

Throughout the previous decade, various opinions have been expressed and some of the recorded opinions include –

- (1) Globalisation refers to all those processes by which the peoples of the world are incorporated into a single world society, global society<sup>2</sup>

---

<sup>1</sup> Oxford Advanced Learner's Dictionary, Fourth Edition, Chief Editor: A P Cowie, Oxford University Press

<sup>2</sup> Albrow, Martin, 1990



(2) Globalisation does not simply refer to the objective process of increasing interconnectedness. It also refers to conscious and subjective matters (namely the scope and density of the consciousness of the world as a single place<sup>3</sup>)

(3) Globalisation is what we in the Third World have for several centuries called colonization<sup>4</sup>

Prof. Drs Rudd Lubbers (2000), the former Prime Minister of the Netherlands, former Professor of Globalisation Studies and presently the United Nations High Commissioner for Refugees, opined that globalisation is caused by three prime movers: technological globalisation, political globalisation and economic globalisation. The three prime movers initiated a process in which geographic distances becomes less a factor in the establishment and sustenance of border crossing, long distance economic, political and socio-cultural development<sup>5</sup>. Prof. Drs Rudd Lubbers (2000) traces the history of globalisation to 1945, the establishment of the United Nations.

The roots of globalisation<sup>6</sup>, as it was presented, can be found in two different periods of history, namely in the period between the 17th century until the Second World War and in the period after the Second World War.

The first period is characterized by the process of enlightenment and within this period a number of roots of globalisation can be identified (Lubbers, 2000):

- (1) Cultural enlightenment:  
decoupling of religion and science, secularisation, rationalization, individualization.
- (2) Political enlightenment:  
nation state formation in Europe, development of international law and treaties.

---

<sup>3</sup> Robertson, Roland, 1992

<sup>4</sup> Khor, Martin, 1995

<sup>5</sup> <http://www.globalise.kub.nl/lexicon.asp?term=Globalisation>

<sup>6</sup> <http://www.globalise.kub.nl/lexicon.asp?term=Roots%of%Globalisation>

- (3) Economic enlightenment:  
money-economy, bookkeeping and accounting, merchant city-states and industrial revolution with interacting national economies.
- (4) Technological innovation:  
Revolution in transport and communication systems by such invention as the car, the airplane, telegraph, radio and telephone.
- (5) Spread of Western Enlightenment via:  
voyages of discovery, colonization and opening of new markets.

The roots in the second period after the Second World War (Lubbers, 2000) are the following:

- (1) Cultural modernization:  
political and economic refugees, worldwide entertainment and information branch and Americanisation of culture and economy.
- (2) Political modernization:  
almost worldwide acceptance of the neo-liberal ideology of market plus democracy, global soft law regimes, regionalization processes, decolonisation and UN-system.
- (3) Economic modernization:  
economic liberalization and a digital revolution with interacting global actors.
- (4) Technological innovation:  
the miniaturization and dematerialization of products, the ICT-revolution and the invention of space-technologies.

- (5) Spread of Western modernity via:  
markets, tourism and developing aid to developing and emerging economies

In many respects, the globalizing economy of the 1990s is the latest stage in the enlargement of the spatial dimension of economic activity, which dates back to pre-industrial times. Essentially, its speed and direction have been attributed by the advancement in transport and communications technologies where goods and services are speedily enhanced. It is in our lifetime that the roles of trade, foreign direct investment (FDI) and cross-border strategic alliances have become such critical determinants of economic progress. And, it has only been in the last 20 years that the world economy has become so structurally interdependent that the use of *global*, as distinct from *international*, has become justifiable. There are plenty definitions of globalisation found in books, articles and journals by different authors and amongst the definitions, Anthony McGrew (1993) defined globalisation as,

*“Globalisation refers to the multiplicity of linkages and interconnections between the states and societies which make up the present world system. It describes the process by which events, decisions, and activities in one part of the world come to have significant consequences for individuals and communities in quite distant parts of the globe. Globalisation has two distinct phenomena: scope (or stretching) and intensity (or deepening). On the one hand, it defines a set of processes, which embrace most of the globe, or which operate world-wide; the concept therefore has spatial connotation. On the other hand, it also implies and intensification of the levels of interaction, interconnectedness or interdependence between the states and societies which constitute the world community. Accordingly, alongside the stretching goes a deepening of global processes.”*

In other words, economic globalisation is a process towards widening of the extent and form of cross-border transactions, and of deepening of economic interdependence between the actions of globalise entities be they private or public

institution or governments - located in one country, and those of related or independent entities located in other countries.

The *superficial* form of globalisation is where an economic entity in one country engages in arm's length trade in a single product with another economic entity in one other country. Whilst the *deepest* form of globalisation as distinguished from internationalisation, is where an economic entity transacts with a large number of economic entities throughout the world; where these exchanges are highly coordinated to serve the world-wide interests of the globalizing entity; and where they consist different kinds or forms of transactions.

Whilst some like John H. Dunning writing in "*The advent of alliance capitalism*" and Robert Z. Lawrence writing in "*The world trade and investment system and developing and emerging economies*" fully favour globalisation. Others like Martin Khor of the Third World Network and a host Non-Governmental Organization like Consumers Association of Malaysia have expressed their reservation.

It is widely acknowledged that the fiasco in Seattle in December 1999 demonstrated the wide rift between proponents and opponents of free trade and the process of globalisation and liberalization of trade and investment. In various news and magazine reports, it was portrayed that the failure was not about agriculture but the refusal of the developing and emerging economies to give in to US pressure to include labour issues in trade talks. It is the observation that within Malaysia, for the interested and initiated, the debate is equally heated. The primary issue debated revolves around the merits and benefits of opening or closing one's domestic market. There is however a need for a more learned approach including proper and objective industry wide studies right down to sub-sectorial analyses, rather than speaking from sentiments. However, there are a wealth of research, analyses and studies prepared by developed countries.

### 2.1.1 The Ongoing Debate - Benefits of an Open Market

It has always been opined by developed countries that trade and foreign direct investments are major engines of growth in developed and developing and emerging economies alike. It is further opined that the case for open markets rests on solid foundations and one of these is the fact that when individuals and companies engaged in specialization and exchange, a country will exploit its comparative advantage. It will devote its natural, human, industrial and financial resources to their highest and best uses. This will provide gains to firms and consumers alike. A more open domestic market is not a handicap, it is a source of competitive strength. Exposure to international trade is a powerful stimulus to efficiency. Efficiency, in turn, contributes to economic growth and rising incomes.<sup>7</sup>

#### 2.1.1.1 What benefits do open markets bring?

There is a school of thoughts that open markets will bring about cheaper and more varied services and in Organisation of Economic Co-operation and Development's (OECD) *Open Market Matters: The Benefits of Trade and Investment Liberalization*, the following were cited<sup>8</sup> -

(1) Liberalization of trade in services has been associated with large reductions of prices. Prices of international phone calls have fallen at a rate of 4 per cent per annum in real terms during the 1990s in developing and emerging economies and about 2 per cent per annum in industrial countries. The World Bank predicts that the cost of a one hour transatlantic phone call could be as low as 3 cents in 2010. In the case of Japan, the price of a three-minute call to the United States dropped by 7 per cent 1996 alone and is expected to decline by as much as 25 per cent further by the year 2000.

<sup>7</sup> *Open Markets Matter: The benefits of Trade and Investment Liberalization*, Organization of Economic Cooperation and Development

<sup>8</sup> *Open Markets Matter: : The benefits of Trade and Investment Liberalization*, Organization of Economic Cooperation and Development <http://www.oecd.org/ech/events/services.htm>

(2) Other advantages which consumers in OECD countries with competitive telecom systems have reaped in recent years over their counterparts in countries with closed markets (on top of the direct price-advantages) include:

- (3) a 97 per cent reduction in waiting time to obtain telecommunications service;
- (4) a 17 per cent lower call failure rate;
- (5) a 39 per cent fewer faults per 100 lines;
- (6) a 34 per cent lead in number of phones digitised.

In China, the launching of mobile telecom services by Unicom -- the second operator allowed to provide basic services in the domestic market -- prompted the Ministry of Posts and Telecommunications to slash its mobile telephone service rates by 30 per cent. Similarly, allowing competitors to enter Ghana's domestic market for cellular services led Mobitel, which previously enjoyed a monopoly position, to cut connection charges by 50 per cent.

Following an initiative under the Single Market programme to liberalize financial services within the European Union (EU), the number of cross-border branches in the banking sector jumped by 58 per cent between 1993 and 1995. This means that businesses as well as individuals now have a wider choice of banks and banking services.

In the two years following a bilateral "opening of skies" agreement to between the United Kingdom and Ireland, economy airfares between London and Dublin were almost halved, whereas flights between Dublin and other EU capitals remain much more expensive. The opening of markets, in this instance, is perceived to have brought about lower cost of travels to the air travelling public.

#### **2.1.1.2 What do closed markets do?**

One approach contrary to the open market is to protect the domestic industry and its work forces against imports by maintaining or imposing quotas and tariffs. The opinion was that consumers typically pay a high price when countries resort to protection.

Protection raises the price of both imports and domestic products, which restricts consumer choice and places the heaviest burden on those in society who are least well off. It slows change and raises its cost, inflicts damage on exporting firms by making them less competitive, and almost invariably translates into greater long-term hardship.<sup>9</sup>

In OECD's *Open Market Matters: The Benefits of Trade and Investment Liberalization*, the following impacts on the automotive industry were cited<sup>10</sup> -

(1) When the United States limited imports of Japanese automobiles in early 1981 the price of a new US car increased by an average of 41 per cent from 1981 to 1984. This was nearly twice the average rate of increase for all consumer prices during the same period. While the industry claimed that higher prices "saved" up to 22 000 jobs, they also prevented many Americans from buying new cars. In fact, they bought around 1 million fewer cars after imports were restricted, and the drop in sales forced the auto industry to eventually lay off 50 000 workers in the late 1980s.

(2) Voluntary export restraints imposed by France on Japanese car imports raised prices by an estimated 33 per cent at a total cost of around \$1.7 billion in 1989. Taken together, the restrictions which France, Italy, Portugal, Spain and the United Kingdom had in place in this sector cost consumers around \$7 billion a year in higher than necessary prices.

(3) Figures for Australia show that imported cars would cost around 25 per cent more today if the 1988 tariffs still applied --representing an extra A\$ 5 000

<sup>9</sup> *Open Markets Matter: The benefits of Trade and Investment Liberalization*, Organization of Economic Cooperation and Development

<sup>10</sup><sub>10</sub> *Open Markets Matter: : The benefits of Trade and Investment Liberalization*, Organization of Economic Cooperation and Development <http://www.oecd.org/ech/events/cars.htm>

on a A\$ 20 000 car. Shielding the Australian car industry from foreign competition raises the price tag of a car bought today by A\$ 2 900 on average.

The closing of one's markets or the protection of one's domestic economy is perceived to bring about inefficiency in the marketplace. These inefficiencies included increased cost to the consumers, the restriction of choices and lessen the motivation towards striving for production efficiencies and competitiveness.

### 2.1.2 The Global Situation

We must recognize the pressures of the international marketplace and the march towards globalisation and liberalization of trade in services driven by the World Trade Organisation. The perception is that the overwhelming majority of the players within the real estate industry are only interested in what happens or what goes on within a certain radius from their projects and operations. But the truth is, decisions and happenings far from our domestic front will have a significant impact on our very own backyard.

There are now 40,000 corporations in the world whose activities cross-national boundaries; these firms ply overseas markets through some 250,000 foreign affiliates. Calculations by the Institute for Policy Studies indicate that the top 200 of these global firms account for an alarming and growing share of the world's economic activity. Of the 100 largest economies in the world, 51 are now global corporations; only 49 are countries. The combined sales of the world's Top 200 corporations are far greater than a quarter of the world's economic activity. The Top 200 corporations' combined sales are bigger than the combined economies of all countries minus the biggest 9; that is they surpass the combined economies of 182 countries.<sup>11</sup>

---

<sup>11</sup> Anderson, Sarah and Cavanagh, John (Top 200 - The Rise of Global Corporate Power, *Institute for Policy Studies, Washington, DC 20005, 1995*)



### 2.1.3 The Level Playing Field

Globalisation aims to create a level playing field on which all countries are to compete as equals, regardless of their stage of economic development. When taken together with the impact of technology or more specifically, information and communication technologies, countries of the world are at very different stages of development, economically and technologically. Add all these to the socio-political climate within each country, which must be respected and it can be readily observed that globalisation impacts each country very differently. The question one must ask is whether a level playing field is utopia?

More and more people the world over are said to be sharing the tangible gains from globalisation and yet there are growing doubts and anxieties among many about the consequences of the entire globalisation process.

As noted by Martin Khor of Third World Network, *“Even by the Northern Institutions’ own estimates, there are winners and losers from the Uruguay Round. ‘Free Trade’ and ‘liberalization’ are not ‘win-win’ processes. Those that are strong enough to take advantage of the rules (or to draw them up) can derive the benefits; others may have a more balanced net outcome, whilst the weaker participants (probably the majority) may stand to lose out.”*<sup>12</sup>

The World Trade Organization affirms in a study released in June that, in the long term, trade liberalization contributes to alleviating poverty, though people may suffer temporary economic shocks because most of the benefits come from adjustments made in the production apparatus. WTO Director General said that the report confirms that “although trade alone may not be enough to eradicate poverty, it is essential if poor people are to have any hope of a brighter future”.<sup>13</sup>

The Political and Economic Risk Consultancy (PERC) observed that “Southeast Asian economies are showing signs of slowing down on liberalization

<sup>12</sup> Khor, Martin, Third World Network

<sup>13</sup> Trade: WTO Prescribes More Liberalization to Reduce Poverty, Inter Press Service, June 19, 2000

efforts, risking erosion of competitiveness over economies such as China, Japan and India. A free trade area among the 10-member ASEAN was in place, but the grouping had to speed up efforts and act more aggressively to prove the region offered major economies of scale. PERC is growing increasingly pessimistic that Southeast Asia will actually move in this direction fast enough however.”<sup>14</sup>

The reality of the situation is that for those within the real estate industry that believe that market liberalisation is inevitable and not only will there be challenges but also afford opportunities will put in place steps and measures to align its organisation and operations towards a liberalised environment with or without GATS or AFAS. Those who are contented with status quo and believed in the comfort afforded by the domestic or the localized markets would continue to maintain such outlook, irrespective of GATS or AFAS. For the former, the globalisation and market liberalisation debate would be most interesting, for the latter, it could well be gibberish and a waste of valuable time.

Amongst the myriad of issues and debates surrounding globalisation, there are two key issues that are hotly debated and contested - that of trade and finance.

#### **2.1.4 The Issue of Trade**

The world economy is becoming increasingly globalised. With the decline in transportation and communications costs, the capabilities of technological enhancement amongst the developed countries and the spread of transnational corporations (TNCs) within global reach, many countries have made fairly close locational substitutes. In such an environment, relatively small differences in institutional practices and shifts in relative competitiveness can have large effects on the flow of international trade and investment.

<sup>14</sup>

*S.E.Asia slowing down on liberalization efforts: Report, Sunbiz, Monday, July 24, 2000*

The nature for international trade and investment is also important to developing and emerging economies, as they are the engines of growth. Debts problem have made the attraction of direct foreign investment a vital source of new capital whilst programmes adopted by financial organizations such as World Bank and International Monetary Fund (IMF) have made trade liberalization an essential component of adjustment. The success of such policies depends not only on the domestic economic responses but also on hospitable international environment.

The international environment is important for developing and emerging economies, not simply for the market access it provides, but also for the demands it imposes on developing country policies. Over the years, developing and emerging economies have claimed and received exemptions from the rules of the General Agreement on Tariffs and Trade (GATT). In regional arrangements and in Generalized System of Preferences (GSP) they were granted access, although limited, without having to assume reciprocal obligations. In their negotiations for a Code of Conduct for TNCs, developing and emerging economies emphasized their need for national sovereignty and the freedom to follow national development strategies.

The GATT has been instrumental in facilitating freer trade. Since the Second World War, tariff rates around the world have plummeted. However amongst the major industrialized countries weighted-average tariff levels have been lowered to below 5 per cent. Despite these achievements, there remained considerable dissatisfaction with GATT, which the Uruguay Round of trade negotiations tried to address. Its 15 working groups were divided into three broad subject matters:

- (1) *increased market access*, including more open trade negotiations in agriculture, textiles and natural resources and removal or reduction of remaining tariff and non-tariff measures;
- (2) *extension of GATT to new areas*, principally trade in services, standards and enforcement of intellectual property rights, and trade related performance requirements imposed by governments on foreign investments; and

(3) *strengthening of GATT rules*, especially those covering anti-dumping, subsidization, product standards, import licensing and dispute settlement.

The original concept of GATT was based on the most favoured nation (MFN) and removal of tariff as the principle means of achieving free trade. Primarily dealing with problems can regulate international trade as they appear at the border or where they involve explicit measures that discriminate against foreigners. On this view, different national practices that affect trade should be tolerated, as long as actors operating within each economy are granted national treatment and not discriminated against, and, or as long as they do not cause injury to other nations.

The pressure not to discriminate against foreign products and firms, items for inclusion of foreign investment, competition policy, environment and labour standards have emerged in multilateral arena. Sometimes both developing and developed countries give considerable resistance to the introduction of such items. Hence WTO will provide a major forum for negotiating such pressures, items and measures. In addition, international trade and investment policies will continue to be pursued through bilateral, regional and WTO measures and agreements. Many countries, both developed and developing, will find subscribing to such an agreement requires changing practices they have long followed.

However, problems facing developing and emerging economies have been the pressured for import liberalization under loan conditions and obligations; the imbalances in the Uruguay Round agreements; lack of benefits relative to expectations accruing from Uruguay Round; and the problem arising from their having to meet their obligations of several WTO agreements.

#### **2.1.4.1 Commodity Prices and Terms of Trade**

Many developing and emerging economies that are in the South export their raw materials and commodities to the developed countries in the North and in return import industrial finished products and commodities. The developing and emerging economies will suffer the imbalance trade in the favour of the developed countries resulting the former suffer tremendous losses.

A paper presented by the secretariat of United Nations Conference on Environment and Development (UNCED) in 1991 showed that sub-Saharan Africa, a 28 percent fall in the terms of trade between 1980 and 1989 led to an income loss of USD 16 billion in 1989 alone. The UNCED study also showed that for 15 middle-income highly indebted countries, there was a combined terms-of-trade decline of 28 percent between 1980 and 1989, causing an average of USD 45 billion losses per year in 1986-1989 period, or 5-6 percent of GDP (Martin Khor, 1993).

According to the Trade and Development Report, 1999(TDR, 99) oil and non-oil primary commodity prices fell by 16.4 and 33.8 percent respectively from the end of 1996 to February 1999, resulting in a cumulative loss of more than 4.5 percent of income during 1997-1998 for developing and emerging economies. For example, Republic of Korea experienced a 25 per cent fall in the terms of trade of its manufactured exports between 1995 and 1997 due to a glut in the world market (UNCTAD, 1999a: 87).

Hence, as such the world trading system has been favouring the exporters (developed countries) of the manufactured goods of finished products and commodities, whilst the developing and emerging economies that are mainly the exporters of raw materials and commodities suffer the disadvantages. Further, the developing and emerging economies have lost their self-reliance in terms of producing their own food as lands were converted to farm export crops that yield unsatisfactory results due to price instability and demand.

Under the auspices of United Nations Conference on Trade and Development (UNCTAD), the developing and emerging economies attempt to obtain a fairer prices and more stable demand conditions for their commodities through agreements, but most of these agreements collapsed due to the developed countries withdrawal support in 1980s.

Further, with the laboratory substitutes of biotechnology commodities for natural commodities by the consumer-developed countries, the developing and

emerging economies, particularly the African countries, would suffer further trade imbalances.

The decline in the trend of commodity prices affecting the developing and emerging economies must be seriously addressed through international conferences, convention, or other institutional convention. It is imperative that such huge income losses incurred by poor countries must be stemmed so that the gap in the disparity of income between the developed and developing and emerging economies is not critically widened.

Both producer and consumer countries must seriously and rationally reconsider their attitude towards commodity prices or other methods of cooperation since leaving commodity trade to the full force of highly concentrated markets would result negative social and environmental effects. One possibility is to initiate a new round of commodity agreements aimed at rationalizing the supply of raw materials, taking into consideration of the depletion of non-renewable natural resources, while ensuring *fair* and *just* prices to reflect ecological and social values.

If the joint producer-consumer attempts to improve commodity situation fails or totally absent, producers of export commodities could take their own initiative to cartel to their global supply so as to better match the profile of global supply. The recent sharp increase in the price of oil as a result of better coordination among oil producing countries like OPEC for example, is a good reminder of the benefits that producer countries can derive from greater cooperation.

There must be more equitable trading systems, reduction of resource wastage, and unsustainable consumption patterns and expansion of financial resources to the developing and emerging economies for the transition to sustainable development. These could only be achieved through improvement of the developing and emerging economies terms of trade *vis-à-vis* the developed countries so that the flow of economic resources between the two countries are more equitable.

The relevant international agencies including UNCTAD should monitor and analyse the implications of biotechnology for developing-country commodities.

Measures should be taken if impact assessments show significant negative effects on incomes and livelihoods in the developing and emerging economies. Signatory members of the Biosafety Protocol under United Nations Convention on Biological Diversity should exercise the protocol's mandate to consider the social implications of developments in biotechnology especially on developing and emerging economies.

#### **2.1.4.2 Trade Liberalization**

Trade liberalization has gradually increased. World exports rose from USD61 billion in 1950 to USD315 billion in 1970 and USD3,447 billion in 1990. The share of world exports in world GDP rose from about 6 percent in 1950 to 12 percent in 1973 and 16 percent in 1992 (Nayyar, 1997). The increased role of trade has been due to the reduction in tariff barriers generally in both developed and developing and emerging economies, due partly to autonomous policies and partly to the series of multilateral trade rounds under GATT. However, high tariff still persist in developed countries in sectors such as agriculture and textiles and for selected manufactured products, which the developing and emerging economies have comparative advantage. Moreover, there has been an increased use of non-tariff barriers that have affected the access of developing and emerging economies to the markets of developed countries.

However, the benefits and costs of trade liberalization for developing and emerging economies constitute an increasing controversial issue. The conventional view that trade liberalization is necessary has automatic and generally positive effects for development is being challenged empirically and analytically.

There is a paradox in the approach developing and emerging economies in general. On the one hand, it is almost invariably repeated that, "we are committed to trade liberalization, which is positive for and essential to growth and development". On the contrary, many developing and emerging economies also notice and actively complaining that trade liberalization has produced negative results for their economies or has marginalized them.

The notion that all are gainers and there are no losers in trade liberalization has proven to be overly simplistic. Some countries may have gained more than others; whilst the poorest countries may have not gained at all and even incur heavy losses in their economic standing. The United Nations Developing Programmes (UNDP) *Human Development Report 1999* states:

“The top fifth of the world’s people in the richest countries enjoy 82 per cent of the expanding export trade and 68 per cent of FDI – the bottom fifth, barely more than 1 per cent. These trends reinforce economic stagnation and low human development. Only 33 countries managed to sustain 3 percent annual growth during 1890-1996. For 59 countries (mainly in sub-Saharan Africa and Eastern Europe and the CIS) GNP per capita declined. Economic integration is thus dividing developing and transition economies into those that are benefiting from global opportunities and those that are not” (UNDP, 1999).

Trade Development Report 1999 (TDR.99) found that for developing and emerging economies (excluding China) the average trade deficit in the 1990s was higher than in the 1970s by 3 percentage points of GDP while the average growth rate was lower by 2 percentage points. Apparently the trade deficits have been increasing faster than income in developing and emerging economies. The cause of such scenario was discussed and the report concludes that:

*“The evidence shows that a combination of declining terms of trade, slow growth in industrial countries and ‘big bang’ liberalization of trade and of the capital account in developing and emerging economies has been a decisive factor”* (UNCTAD, 1999a: chap.IV).

One of the causes of wider trade deficits arising from rapid trade liberalization, the UNCTAD report said: “It (trade liberalization) led to a sharp increase in their import propensity, but exports failed to keep pace, particularly where liberalization was a response to the failure to establish competitive industries behind barriers. With the notable exception of China, liberalization has resulted in a general widening of the gap between the annual growth of imports and exports in the



1990s, but the impact was particularly severe in Latin America, where the gap averaged about 4 percentage points.”

Hence, if trade liberalization is carried out in inappropriate manner in countries that are not ready to cope or face conditions that are unfavourable, it can contribute to a vicious cycle of trade and deficit balance of payments, financial instability, debt and recession.

Studies also show that there is no correlation between trade and liberalization and growth. That is, countries that rapidly liberalized their imports did not necessarily grow faster than those that liberalized more gradually or in more strategic ways.

In a study of 41 least developed countries (LDC), the UNCTAD senior researcher Mehdi Shafaeddin (1994) found, “no clear and systematic association since the early 1980s between trade liberalization and devaluation, on the one hand, and the growth and diversification of output and growth of output and exports of LDCs on the other. In fact, trade liberalization has been accompanied by deindustrialisation, and where export expanded it was not always accompanied by the expansion of supply capacity.”

On the contrary, the paper attributes the success or failure of GDP and industrial growth to the volume of investment and availability of imports. “The design of trade policy reforms has also been an important factor in performance failure.”

Dani Rodrik (1999), Harvard University economist argues that the developing nations must participate in the world economy on their own terms and not on the terms *dictated* by global markets and multilateral institutions. Reducing barriers to imports and opening to capital flows would increase growth and reduce poverty in developing and emerging economies. Rodrik’s study concludes: “The trouble is, there is no convincing evidence that openness, in the sense of low barriers to trade and capital flows, systematically produces these results. The lesson of history is that ultimately all successful countries develop their own brands of national

capitalism. The States that have done best in the post-war period devised domestic investment plans to kick-start growth and established institutions of conflict management. An open trade regime, on its own, will not set an economy on a sustained growth path.”

Martin Khor (2000) is of the opinion that a major problem faced by developing and emerging economies in the trade liberalization process is that a country may be able to control how fast to liberalize its imports (and thus increase the inflow of products) but cannot determine by itself how fast its exports grow. Export performance partly depends on the prices of the existing exported products (and developing and emerging economies have suffered from serious declines in the prices of their commodity exports and their terms of trade) and also having or developing the infrastructure, human and enterprise capacity for new exports (which is a long term process and not easily achieved).

Market accessibility for the developing and emerging economies’ potential exports to the developed countries determines the export performance for developing and emerging economies. Many tariff and non-tariff barriers exist in developing and emerging economies to the potential export of developing and emerging economies. Unless these barriers are removed, the developing and emerging economies’ export potential will not be realized. UNCTAD note on TDR.99 remarks:

“Developing countries have been striving hard, often at considerable cost, to integrate more closely into the world economy. But protectionism in the developed countries has prevented them from fully exploiting their existing or potential competitive advantage. In low-technology industries alone, developing and emerging economies are missing out on an additional USD 700 billion in annual export earnings as a result of trade barriers. This represents at least four times the average annual private foreign capital inflows in the 1990s (including FDI)” (UNCTAD, 1999b).

Martin Khor (2000) added that trade liberalization can (and often does) cause imports to surge without a corresponding (or correspondingly large) surge in exports. This can cause the widening of trade deficit, deterioration in the balance of payments

and the continuation or worsening of external debt, which act to constrain growth prospects and often result in persistent stagnation or recession.

Trade liberalization should not be pursued in hush-hush manner. What is important is the quality, timing, and sequence the scope of liberalization particularly the import liberalization. The strengthening of local enterprises and farms, human resource and technological development as well as building export capacity and markets would prepare the developing and emerging economies' in a better position in anticipation of global trade liberalization. If conditions for success are not yet readily present in a country, then one should not proceed with trade liberalization, which can lead to negative result or even persistent recession. Thus, to pressurize such countries to liberalize trade would lead them to economic nightmare.

Developing countries must have the ability, freedom and flexibility to make strategic choices in finance, trade and investment policies until such time that their local firms and farms are readily prepared without being dictated by developing and emerging economies in respect of the scope of trade liberalization.

Imbalances and inequalities in the world trading system should be tackled as a priority; in doing so, developed countries should increase the access to their markets for products from the developing and emerging economies, but on the contrary should not be made mandatory for the developing and emerging economies to further open up their markets to developing and emerging economies' products.

#### **2.1.4.3 The Multilateral Trading System**

WTO's Ministerial meeting held in Seattle in December 1999 was a failure. This provides an opportunity for all countries, especially developing and emerging economies to review the development and the interests in respect of framework, rules and defects of the multilateral trading system. The collapse of the Seattle meeting had its roots in both the system of decision-making and the substance of negotiations. Whilst the developed countries were more concerned on the benefits of the agreements, on the contrary, the developing and emerging economies were prepared and more concerned for the opposite. Most of them were not in the frame of mind to

consider or welcome the new issues being proposed by developed countries. The latter were strongly promoting several new issues, such as investment, competition policy, and transparency in government procurement, a new round of industrial tariff cuts, labour, environmental standards and copyright issues. At Seattle, the United States, led by President Clinton, pushed for labour standards and linked the issue to the use of trade sanctions seemed to confirm the fears of developing and emerging economies that WTO was sought to be biased, prejudicial and even more for major powers own agenda.

The clash of interests over trade issues and substance were worsened when there was lack of transparency in multitude of talks held in small working groups that the majority of developing and emerging economies members had no access to. Majority of the delegations from the developing and emerging economies openly declared that they would not join in any consensus on any Declaration which they had little or no part in formulating. Thus, the talks had to abandon without such Declaration by Ministers.

Hence, reformation on multilateral trading system that includes substantive and procedural issues need to be addressed. The grievances, frustration and disappointments of the developing and emerging economies and the fact that they do not appear to have benefited from the Uruguay Round and that the problems of implementing WTO agreements have to be urgently addressed, tackled and rectified. The process of decision-making and negotiations in WTO has to be more than transparent and democratic. It must avoid deals and trade-offs between nations and trading blocks seeking only to unilaterally benefit from the process.

Developing countries have high expectations on realising significant benefits from the Uruguay Round and the establishment of the World Trade Organisation. Expected increased access to the markets of developed countries for products like textiles and agriculture sectors are keenly anticipated and awaited. In these sectors the developing nations have comparative advantages, primarily due to its low cost of labour. However, their expectations are not realized due to delays, non-committal stance and non-implementation by the developed countries. Main problems include the following:

### (1) Tariff Peaks Remain

The developed countries are supposed to lower the industrial tariffs in order to benefit the developing and emerging economies with manufacturing export capacity. However, the 'tariff peaks' or high import duties on certain products remain within the developed countries for many industrial products that developing and emerging economies export. In other words, some potential exports of developing and emerging economies are still being blocked.

### (2) Textile Quotas Remain

The Uruguay Round Agreement on Textiles and Clothing was aimed at phasing out the special treatment of the textiles and clothing sector, in which the developing and emerging economies for the past quarter-century had agreed to "subsidize" developed countries by allowing quotas to be placed on their exports in this sector. This 10-year phase-out was supposed to be the feature of the Uruguay Round to immediately benefit the developing and emerging economies that export textiles, clothing and footwear.

However, the textile exporting developing and emerging economies have been disappointed and frustrated as they have yet to enjoy any benefit due to 'enloading' of the implementation by developed countries of their commitments, that is, the liberalization with regard to most only in the final years or year, and thus, the benefits will only arise at the end of 10-year phase-out period.

### (3) Anti-dumping Mechanism

The supposedly improvement to market access through tariff reductions by the developing and emerging economies is being offset by an increase in non-tariff barriers in the developed countries is of much concern by the developing and emerging economies. Abuse of anti-dumping mechanisms by United States of America and the European Union on products from developing and emerging economies including textiles continue to pose serious obstacles. Many developing

and emerging economies have proposed that such misuse of an otherwise valuable mechanism must be curtailed by amendments to the Anti-Dumping Agreement.

#### (4) Protection in Agriculture

The Agriculture Agreement was supposed to result in import liberalization and reduction of domestic support and export subsidies for agricultural products especially in the developed countries, and this was expected to improve market access for those developing and emerging economies that export agricultural products. But, it turned out to be the opposite. For example, in the initial year of agreement the United States of America maintain very high tariffs, sugar at 244 per cent, peanuts at 174 per cent; for the European Union, beef at 213 per cent, wheat at 168 per cent; for Japan, wheat at 353 per cent and for Canada, butter at 360 per cent, eggs at 236 per cent (Das, 1988:59). As a result it is impossible for the developing nations to gain access to such markets.

#### **2.1.4.4 Implementation of WTO Agreements**

Implementing the obligations contained in the WTO agreements are generally problematical for the developing and emerging economies. The Uruguay Round resulted in several new legally binding agreements that require them to make changes to their domestic legislation and economic policies in such diverse areas as services, agriculture, intellectual property and investment measures. Many developing and emerging economies do not have the capacity to follow the negotiations, let alone participate actively. Many of the smaller countries did not fully understand what they committed themselves to. Some of the agreements have a grace period of five years before implementation, and this expired at the end of 1999. Thus, the problems arising from implementation may get more acute.

It must be appreciated that -

(1) Most factories and farms in the developing and emerging economies are small and at best, medium in size by comparison, which are unable to compete with transnational corporations (TNCs) in and from developed countries. Having to

liberalize their industrial, services and agricultural sectors would cause disruption to their domestic sectors that may threaten job security and livelihoods of the local populace.

(2) The Uruguay Round removed or severely curtailed the developing and emerging economies “space or options” or ability to provide support (subsidies) for their domestic industries and to impose some percentage of local contents in their production. The survival of domestic industries would thus be severely challenged.

(3) The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) will severely hinder or prevent local firms from leveraging on modern and state-of-the-art technologies over which other foreign corporations have intellectual property rights (IPRs). The domestic industry would be hampered to expand their technology literacy, as intellectual properties are expensive and perhaps beyond their means.

#### **2.1.4.5 Issues Concerning WTO Agreements**

Among some of the concerns of developing and emerging economies regarding some of the agreements are:

##### **(1) The Agriculture Agreement**

The Agriculture Agreement could have severe negative impacts on many developing and under-developed countries. Most of them will have to reduce their domestic support or subsidies to farmers and remove non-tariff controls on agricultural products, converting these to tariffs and then progressively reducing these tariffs. The domestic agriculture sector would thus face increasing competition and the viability of small “ma and pa” farms will not be able to compete with cheaper imports.

A recent Food and Agriculture Organization (FAO) study on 16 developing and emerging economies in implementing the Uruguay Round Agriculture Agreement concluded that:

*“A common reported concern was with a general trend towards the concentration of farms. In the virtual absence of safety nets, the process also marginalized small producers and added to unemployment and poverty. Similarly, most studies pointed to continued problems of adjustment. As an example, the rice and sugar sectors in Senegal were facing difficulties in coping with import competition despite the substantive devaluation in 1994” (FAO, 1999)*

(2) The Agreement on Trade-Related Investment Measures (TRIMs)

In the TRIMs Agreement, “investment measures” such as the local content requirements (obliging firm to use at least a specified minimal amount of local inputs) and foreign exchange balancing (limiting the import of inputs by firms to a certain percentage of their exports) was prohibited for most developing and emerging economies from January 2000. Such measures were introduced to protect a country’s balance of payments, promote local firms and enable more linkages to the local economy. The prohibition of these investment measures will make the attainment of development goals much more difficult and cause developing and emerging economies to loose some important policy options to pursue their industrialization and economic development.

(3) The TRIPS Agreement

The TRIPS Agreement obliges developing and emerging economies to introduce Intellectual Property Rights (IPR) legislation with standards of protection similar to that of the developed countries. This may severely curtail the capacity of developing and emerging economies to benefit and leverage on technological advancement, primarily due to the high cost of and accessibility to such IPRs. It could be readily observed that developed countries pathway to modernity and technological prowess were aided by non-adherence to the principle of IPRs as promulgated today.



Increased royalties and license fees to Trans-national Corporations will result from such agreement, paving the way for increase in prices of many products and services beyond the reach of many. In other instances, it drastically reduces the margin of profit to a level that domestic operators could no longer operate and thus herald the demise of these operations.

### **2.1.5 The Issue of Finance**

Another major issue in globalisation is financial liberalization. Several factors attribute to this form of globalisation. Among the major ones are:

- (i) the policy choice of an increasing number of countries, both the developed and developing and emerging economies, for financial deregulation and liberalization, that is, the opening up by a country to international capital flows;
- (ii) the development of technology, particularly information and communication technologies facilitating massive and ease of cross-border movements of funds;
- (iii) the emergence of new financial instruments and institutions such as derivatives and highly-leveraged hedge funds; and
- (iv) the collapse of the international fixed exchange rate system thus making it possible for profit to be made from speculation on changes in the rates of currencies from day to day.

Some developing and emerging economies that have integrated into global financial markets had experienced severe financial turmoil and economic losses. The developing and emerging economies had been drawn into the process of financial liberalization partly due to advice given from international financial institutions with the view that greater benefits accrue thus offsetting the pains from such liberalisation. The risks attributed from the volatility of short – term capital flows,

however, these same advisors did not emphasize. Many countries did not take any precautionary measures to minimize such risks and instead deregulated their financial markets, dismantling existing capital controls, allowing private banks and companies to take foreign-currency loans and allowed the floating and trading of their local currency.

As a result, some developing and emerging economies including Malaysia had to undergo painful economic trials and tribulations while other countries witnessed not only financial and economic collapse but also social unrest and chaos.

#### **2.1.5.1 Short-term Capital Flows**

When a large inflow of short-term capital takes place, it leads to an asset price bubble, which burst with speculative currency plays and large amount of capital outflows causes sudden and sharp depreciation of the local currency. This phenomenon could spread and became contagion to other countries. Such was the famed Asian financial crises of 1997. The currency depreciation multiplies the burden of servicing foreign debt, which has been built-up in a relatively short period by the local companies and banks. The Asian financial crises of 1997 proved the vulnerability of countries to external financial forces. Indonesia, South Korea and Thailand had to borrow from the International Monetary Fund to bail them out of their predicament as they ran out of foreign reserves to service their external debts.

Prior to 1997, UNCTAD had been warning for several years about the dangers and costs of financial liberalization. The Asian financial crises confirmed UNCTAD's analyses and warnings as stated by its Secretary General, Rubens Ricupero in his closing speech at UNCTAD X in February 2000:

*“When trouble came, starting in Thailand in 1997, it brought with it a reversal of opinion. That episode revealed the sheer size of the financial flows that the industrial world could generate, relative to the normal size of flows of developing and emerging economies. The*

*swift entry, and even swifter exit, of such massive flows made clear for all to see the havoc that can be unleashed on small and fragile financial systems that are open to such tidal waves of finance. Despite the commitment of many international agencies to the complete liberalization of capital markets right up to and beyond the hour of Asia's crisis, the same agencies now say that they can see some virtues in certain types of capital controls. Positive processes of integration into the world economy are the goal. This has never changed. However, the liberalization measures that are necessary to this end must be phased in a prudent and orderly manner. They must take account of specific local circumstances; they must be complemented by appropriate domestic policies and accompanied by institution and capacity building. Only then can they hope to succeed" (Ricupero, 2000).*

Also at UNCTAD X, Yimaz Akyuz, Head of the UNCTAD Macroeconomic and Development Policies Branch summed up the lessons of the crises that hit Asia and other regions as follows:

*"The crisis has shown that when policies falter in managing integration and regulating capital flows, there is no limit to the damage that international finance can inflict on an economy. It is true that the control and regulation over such flows may reduce some of the benefits of participating in global markets. However, until systematic instability and risks are adequately dealt with through global action the task of preventing such crises fall on governments in developing and emerging economies" (Akyuz, 2000).*

### **2.1.5.2 Response to Debt and Financial Crises**

In dealing with their debt and financial crises, developing and emerging economies inadvertently will turn to international financial agencies like the International Monetary Fund. However, it is opined by many that IMF's policy responses may often than not be appropriate and worsen the situation. The structural

adjustment policies established by IMF-World Bank loans to heavily indebted developing and emerging economies have been criticized by most Asian leaders for further depressing their economies through high interest rates and stringent financial conditions that many viewed as only benefiting the lenders and leaving the indebted country further indebted.

According to UNCTAD, the crisis was initially one of liquidity rather than of solvency. If sufficient time were given to realize their investments, the affected countries would have been able to generate foreign exchange to repay their external debts with an exchange rate adjustment needed to restore competitiveness. However the use of high interest rates, currency devaluation, corporate collapse and subsequent reduction in growth and economic activities as well as general crises of confidence quickly created a solvency crisis.

In other words, the crisis-stricken countries that sought IMF fund were never given a chance. According to *TDR.98*, given the sharp attacks on the currencies, the appropriate action would have been to move quickly to solve the problem by introducing a debt standstill and bringing the borrowers and lenders together to reschedule debts, even before the commitments of IMF funds. A combination of rapid debt restructuring and liquidity injection to support the currency and provide working capital for the economy would have made possible to pursue the kind of policies that enabled United States to recover quickly from recession and debt deflation in the early 1990s (Martin Khor, 2000).

### **2.1.5.3 Transparency and Regulation of International Financial Markets**

There is no transparency on the movements and workings within the international financial markets that have played a major role in precipitation the financial crisis. Numerous questions remains, who are the major players, what is moving, who is moving the funds, which makes the decisions, when are they engaging and when are they disengaging – nobody seems to know. All seems to be a mystery. There are thus significant deficiencies within the international financial markets in terms of lack of transparency, information, monitoring and regulation within the international financial markets.

Greater transparency in the dealings and operations of international financial and capital markets is needed. A higher level of market disclosure of the players and deals in the various markets including currency trading should be made public. Similarly the public should know the sources of funds and the operations of those highly leveraged institutions and hedge funds.

Central Banks should have both the regulatory capacity and capability to monitor and distinguish between the investment funds and speculative funds that could potentially manipulate and destabilise the local financial and capital markets.

It is interesting to note that UNCTAD in its TDR 98 (UNCTAD, 1998: 89-93) proposed the setting up of an international insolvency procedure, similar to national bankruptcy procedures (Chapter 11 of the United States Bankruptcy Code). In the international system, one option is to set up an independent panel to determine if a country is justified in imposing exchange restrictions with the effect of debt standstill. The debtor countries then unilaterally submit to the panel for approval within a period. These debt standstills should be combined with debtor-in-possession financing so that the debtor country can replenish its reserves and get working capital. This would mean IMF funds needed for emergency lending would be less than what is needed for bailout operations.

There should be a change in the international policy perception and to provide an environment or framework so that developing and emerging economies affected by financial and capital crises can adopt capital control as part of their range of policies without being looked upon with disapproval by international agencies or developed countries. TDR 98 concluded that for the foreseeable future, countries must be allowed the flexibility to introduce capital control measures, instead of new obligations being imposed on these countries to further liberalize capital movement.

The volatility of capital flows must be recognized and developing and emerging economies should establish national policy framework to deal with international capital flows. Such policy framework must be comprehensive and able

to deal with different kinds of capital flows, foreign direct investments (FDI's) should be encouraged but short-term speculative capital flows frowned upon.

External debt management should be accorded top priority in a nation's economic policy, as excessive debt can exact a heavy burden on national resources but more seriously, could lead to the loss of policy autonomy and dependence on other countries or international financial institutions to formulate the nation's basic economic policies. These policies imposed on the distressed nation can be inappropriate and contribute to many years of economic and social deterioration. (Khor, 2000)

The dilemma continues. Developing and emerging economies need to ascertain as to whether, when and to what extent their economies could be liberalized with the hope of benefiting from the good Globalisation provides.

#### **2.1.6 Challenges of Liberalisation**

The question is often asked and many have ventured to answer but no one appears totally certain. Could developing and emerging economies take advantage of the liberalization process, while at the same time avoid or minimize the potentially disruptive consequences to economies and society? The ability to manage liberalization and globalisation will be one crucial aspect of national policy-making in the days ahead.

Opportunities and challenges of the liberalisation and globalisation processes have been often being debated. UNCTAD in its report in 1996 listed the main opportunities as:

- (a) trading opportunities arising from the Uruguay Round;
- (b) opportunities from international capital flows and financing of development;

- (c) opportunities provided by international production through Foreign Direct Investment; and
- (d) opportunities for economic cooperation between developing and emerging economies to boost South-South cooperation.

The UNCTAD report also warned of the risks, stating “the processes of globalisation and liberalization can also give rise to a number of potentially negative consequences and challenges to development”. It gives detail of three potential problems:

- (a) loss of policy autonomy (the range of policy instruments available to developing and emerging economies has narrowed as a result of economic liberalization policies and stringent multilateral disciplines);
- (b) financial openness and the risk of instability and disruption to development sentiments of external investors; and
- (c) the phenomenon of marginalization (in some developing and emerging economies, especially the lesser developed countries (LDCs), who are unable to benefit from or meaningfully participate in globalisation processes due to structural supply-side weakness and debt) (Khor, 2000).

The real estate industry will not be spared such challenges and opportunities. The industry would need to develop its own learned determination of the challenges and opportunities ahead.

## **2.2 REAL ESTATE INDUSTRY**

### **2.2.1 United Nations Statistics Division Central Product Classification Version 1.1, (CPC Ver. 1.1)**

Central Product Classification (CPC) constitutes a comprehensive classification of all goods and services. CPC presents categories for all products that can be the object of domestic or international transactions or that can be entered into stocks. It includes products that are an output of economic activity, including transportable goods, non-transportable goods and services. CPC, as a standard central product classification, was developed to serve as an instrument for assembling and tabulating all kinds of statistics requiring product detail. Such statistics may cover production, intermediate and final consumption, capital formation, foreign trade or prices. They may refer to commodity flows, stocks or balances and may be compiled in the context of input/output tables, balance of payments and other analytical presentations. The CPC classifies products based on the physical characteristics of goods or on the nature of the services rendered. CPC was developed primarily to enhance harmonization among various fields of economic and related statistics and to strengthen the role of national accounts as an instrument for the coordination of economic statistics. It provides a basis for recompiling basic statistics from their original classifications into a standard classification for analytical use. The custodian is the Statistical Classifications Section, United Nations Statistics Division. Version 1.1 was the result of the last revision exercise in 2002.

The structure of the complete Central Classification Code Version 1.1 is as follows -

- 0 - Agriculture, forestry and fishery products
  - 01 - Products of agriculture, horticulture and market gardening
  - 02 - Live animals and animal products



- 03 - Forestry and logging products
- 04 - Fish and other fishing products
- 1 - Ores and minerals; electricity, gas and water
  - 11 - Coal and lignite; peat
  - 12 - Crude petroleum and natural gas
  - 13 - Uranium and thorium ores
  - 14 - Metal ores
  - 15 - Stone, sand and clay
  - 16 - Other minerals
  - 17 - Electricity, town gas, steam and hot water
  - 18 - Water
- 2 - Food products, beverages and tobacco; textiles, apparel and leather products
  - 21 - Meat, fish, fruit, vegetables, oils and fats
  - 22 - Dairy products
  - 23 - Grain mill products, starches and starch products; other food products
  - 24 - Beverages
  - 25 - Tobacco products
  - 26 - Yarn and thread; woven and tufted textile fabrics
  - 27 - Textile articles other than apparel
  - 28 - Knitted or crocheted fabrics; wearing apparel
  - 29 - Leather and leather products; footwear
- 3 - Other transportable goods, except metal products, machinery and equipment
  - 31 - Products of wood, cork, straw and plaiting materials
  - 32 - Pulp, paper and paper products; printed matter and related articles
  - 33 - Coke oven products; refined petroleum products; nuclear fuel
  - 34 - Basic chemicals
  - 35 - Other chemical products; man-made fibres
  - 36 - Rubber and plastics products
  - 37 - Glass and glass products and other non-metallic products n.e.c.
  - 38 - Furniture; other transportable goods n.e.c.
  - 39 - Wastes or scraps

#### 4 - Metal products, machinery and equipment

- 41 - Basic metals
- 42 - Fabricated metal products, except machinery and equipment
- 43 - General purpose machinery
- 44 - Special purpose machinery
- 45 - Office, accounting and computing machinery
- 46 - Electrical machinery and apparatus
- 47 - Radio, television and communication equipment and apparatus
- 48 - Medical appliances, precision and optical instruments, watches and clocks
- 49 - Transport equipment

#### 5 - Construction services

- 54 - Construction services

#### 6 - Distributive trade services; lodging; food and beverage serving services; transport services; and utilities distribution services

- 61 - Wholesale trade services
- 62 - Retail trade services
- 63 - Lodging; food and beverage serving services
- 64 - Land transport services
- 65 - Water transport services
- 66 - Air transport services
- 67 - Supporting and auxiliary transport services
- 68 - Postal and courier services
- 69 - Electricity distribution services; gas and water distribution services through mains

#### 7 - Financial and related services; real estate services; and rental and leasing services

- 71 - Financial intermediation, insurance and auxiliary services
- 72 - Real estate services
- 73 - Leasing or rental services without operator

#### 8 - Business and production services

- 81 - Research and development services
- 82 - Legal and accounting services
- 83 - Other professional, technical and business services

84 - Telecommunications services; information retrieval and supply services

85 - Support services

86 - Services incidental to agriculture, hunting, forestry, fishing, mining, and utilities

87 - Maintenance, repair, and installation (except construction) services

88 - Manufacturing services on physical inputs owned by others

89 - Other Manufacturing Services

9 - Community, social and personal services

91 - Public administration and other services to the community as a whole; compulsory social security services

92 - Education services

93 - Health and social services

94 - Sewage and refuse disposal, sanitation and other environmental protection services

95 - Services of membership organizations

96 - Recreational, cultural and sporting services

97 - Other services

98 - Domestic services

99 - Services provided by extraterritorial organizations and bodies

### **2.2.2 Real Estate Services**

The CPC Version 1.1 contains a specific group for real estate services within the broader Section: 7 - Financial and related services; real estate services; and rental and leasing services. The hierarchy under Section 7 is as follows –

Division: 72 - Real estate services

Group: 721 - Real estate services involving own or leased property

Class: 7211 - Renting or leasing services involving own or leased property

Subclass: 72111 - Renting or leasing services involving own or leased residential property

Explanatory note: This subclass includes:

- renting or leasing services concerning residential properties by owners or leaseholders to others:

- houses, flats, apartment buildings
- multiple-use buildings that are primarily residential
- residential mobile home sites

This subclass does not include:

- lodging services provided by operating hotels, motels, rooming houses, school dormitories, camp sites and other lodging places, cf. 631

Subclass: 72112 - Renting or leasing services involving own or leased non-residential property

Explanatory note: This subclass includes:

- renting or leasing services concerning industrial, commercial or other non-residential buildings or property by owners or leaseholders to others. Examples include:

- factories, office buildings, warehouses
- theatres, exhibition halls and multiple-use buildings that are primarily non-residential
- agricultural, forestry and similar properties

- renting or leasing by the month or year of caravan sites, lock-up garages or other places for parking vehicles

Class: 7212 - Trade services of buildings and associated land

Subclass: 72121 - Trade services of residential buildings and associated land

Explanatory note: This subclass includes:

- sales on own account of residential buildings and land in cases where the sales are treated as sales of

trading stock by the seller, but not sales of property where the sales are disposals of the fixed assets of the selling unit

- sales of houses with land, multiple-dwelling buildings with land and individual dwelling units within such buildings, such as individual apartments or condominiums. Such property can be either leasehold or freehold.

This subclass does not include:

- sales of residential property constructed by the selling unit, cf. 5411

Class: 7212 - Trade services of buildings and associated land

Subclass: 72122 - Trade services of non-residential buildings and associated land

Explanatory note: This subclass includes:

- sales on own account of non-residential buildings and land in cases where the sales are treated as sales of trading stock by the seller, but not sales of property where the sales are disposals of the fixed assets of the selling unit. Examples of non-residential properties include:

- factories, office buildings, warehouses
- theatres, multiple-use buildings that are primarily non-residential
- agriculture, forestry properties
- similar properties

Note: Such property can either be leasehold or freehold

This subclass does not include:

- sales of non-residential property constructed by the selling unit, cf. 5412

Class: 7213 - Trade services of vacant and subdivided land

Subclass: 72130 - Trade services of vacant and subdivided land

Explanatory note: This subclass includes:

- sales on own account of vacant residential or non-residential land in cases where the sales are treated as sales of trading stock by the seller. Such vacant land can include subdivided vacant land.

Group: 722 - Real estate services on a fee or contract basis

Class: 7221 - Property management services on a fee or contract basis

Subclass: 72211 - Residential property management services on a fee or contract basis

Explanatory note: This subclass includes:

- management services concerning houses and other residential properties, on a fee or contract basis
- management services concerning multi-apartment apartment buildings (or multiple-use buildings that are primarily residential)
- residential mobile home sites
- rent collection services
- management services concerning dwellings in joint ownership

Class: 7221 - Property management services on a fee or contract basis

Subclass: 72212 - Non-residential property management services on a fee or contract basis

Explanatory note: This subclass includes:

- management services concerning industrial and commercial properties, multiple-use buildings that are primarily non-residential, etc.
- management services concerning agricultural, forestry and similar properties

This subclass does not include:

- sports and recreational sports facility operation services, cf. 96520
- operation of other recreation and amusement services n.e.c., cf 96990

Class: 7222 - Buildings and associated land sales on a fee or contract basis

Subclass: 72221 - Residential buildings and associated land sales on a fee or contract basis

Explanatory note: This subclass includes:

- real estate agency and brokerage houses related to the sale of houses, flats, apartment buildings and other residential properties, and similar intermediation services involving buying, selling and renting of residential buildings and land, on a fee or contract basis

Class: 7222 - Buildings and associated land sales on a fee or contract basis

Subclass: 72222 - Non-residential buildings and associated land sales on a fee or contract basis

Explanatory note: This subclass includes:

- real estate agency and brokerage houses related to the sale of non-residential buildings and land, such as offices, factories, shops, etc., and similar intermediation services involving buying, selling and renting of non-residential buildings and land, on a fee or contract basis

Class: 7223 - Land sales on a fee or contract basis

Subclass: 72230 - Land sales on a fee or contract basis

Explanatory note: This subclass includes:

- real estate agency and brokerage houses related to the sale of vacant land, and similar intermediation services involving buying, selling and renting, non-residential or residential, on a fee or contract basis

Group: 722 - Real estate services on a fee or contract basis

Class: 7224 - Real estate appraisal services on a fee or contract basis

Subclass: 72240 - Real estate appraisal services on a fee or contract basis

Explanatory note: This subclass includes:

- appraisal of residential buildings and land, non-residential buildings and land, and residential and non-residential vacant land on a fee or contract basis

### 2.2.3 Construction Services

The CPC Version 1.1 contains a specific section for construction services. Construction services are closely related to real estate services. The hierarchy under Section 5 is as follows –

Section: 5 - Construction services

Group 541 - General construction services of buildings

Group 542 - General construction services of civil engineering works

Group 543 - Site preparation services

Group 544 - Assembly and erection of prefabricated constructions

Group 545 - Special trade construction services

Group 546 - Installation services

Group 547 - Building completion and finishing services

Group 548 - Renting services related to equipment for construction or demolition of buildings or civil engineering works, with operator

A closer examination of the groups, classes and subclasses within the construction services section is as follows -

Group: 541 - General construction services of buildings

Class: 5411 - General construction services of residential buildings

Subclass 54111 - General construction services of one- and two-dwelling buildings

Subclass 54112 - General construction services of multi-dwelling buildings

Class: 5412 - General construction services of non-residential buildings



Subclass 54121 - General construction services of industrial buildings

Subclass 54122 - General construction services of commercial buildings

Subclass 54129 - General construction services of other non-residential buildings

Group: 543 - Site preparation services

Class 5431 - Demolition services

Class 5432 - Site formation and clearance services

Class 5433 - Excavating and earthmoving services

Class 5434 - Water well drilling and septic system installation services

Group: 546 - Installation services

Class 5461 - Electrical installation services

Class 5462 - Water plumbing and drain laying services

Class 5463 - Heating, ventilation and air conditioning installation services

Class 5464 - Gas fitting installation services

Class 5465 - Insulation services

Class 5469 - Other installation services

Group: 547 - Building completion and finishing services

Class 5471 - Glazing services

Class 5472 - Plastering services

Class 5473 - Painting services

Class 5474 - Floor and wall tiling services

Class 5475 - Other floor laying, wall covering and wall papering services

Class 5476 - Joinery and carpentry services

Class 5477 - Fencing and railing services

Class 5479 - Other building completion and finishing services

## 2.2.4 Globalisation and Liberalisation of the Real Estate Services

Real estate services are not spared of the challenges and opportunities plus the concerns as discussed. The complexity of the real estate industry in general, the residential (housing) sector in particular is apparent and involves both issues of trade and finance.

The opening (globalising and liberalising) of Russia's services markets has lead to substantial increase in the activities of foreign service providers –

- (a) The share of foreign suppliers in international cargo transportation services increased between the period of 1991-92 and 1997-98 from 25 to 75 percent
- (b) One auditing firm with foreign participation controls 38 percent of the domestic market of auditing services (*firms with foreign participation control over 60 percent of the market*)
- (c) The market of franchising services is almost fully controlled by foreign suppliers

Unfortunately, there are to date no comprehensive studies on the impact of globalisation and liberalisation of Malaysia's real estate industry, in particular, the residential (housing) sub-sector. Residential (housing) development has linkages to more than 140 other industrial and services and the impact of globalising and liberalising this industry need to be better understood.

Malaysia's approach to the current round of services negotiations is based on the principle of managed and progressive liberalisation taking into account the level of domestic development. Progressive liberalization of trade in services would allow for:

- (a) domestic capacity building in specific services sectors; and

- (b) amendments to the domestic laws, especially in professional services to cater for provision of services by foreign services suppliers.

There are indeed many issues that needed to be studied and considered when globalising and liberalising Malaysia's domestic residential (housing) sub-sector. It must be noted that the fact remains that housing in Malaysia falls under the social sector of the national development strategy. Thus there exist measures to ensure that there are adequate housing for the less affordable (the developer's responsibility for low-cost housing), racial integration (bumiputra allocation quotas and discounts) being the foremost. Then there is the Malay Reservation Enactments and land held under such enactments. There is also land held under Group Settlement Act. Coupled with the need for Foreign Investment Committee's approval for the purchase of real estate of certain categories, there appears to be a myriad of issues that would need to be carefully studied and considered when globalising and liberalising the real estate industry.

### **2.3 HOUSING THE NATION**

Rapid urbanization has had a tremendous impact on urban areas in Malaysia in terms of population growth and hence residential (housing) needs. While there has been a persistent concern with conditions of housing for the lower-income groups, it was not until Merdeka that new initiatives were developed to implement programmes specifically for their needs. The rapid urbanization and industrialization during the New Economic Policy Era (1971 – 1990) saw a tremendous transformation of the need for housing in urban areas.

In 1965, the National Land Code was adopted and introduced a significant variant to the practise of the Torrens System of land registration, the introduction of Qualified Titles. The creation of qualified titles as a forerunner to final title and conferring all rights, privileges and obligations allowed the residential (housing) development sector to take off and attain dizzying heights in the 1990's.

During the pre-Merdeka era, housing problems were associated with squatter dwellings and overcrowded accommodation<sup>15</sup>. The concept of public housing was associated with the provision of quarters as the Colonial Administration had provided housing facilities for its employees in public institutions associated with education (schools), security (police and army), medical (hospitals) and district and public works administration (water works and public works). The only programme aimed at providing housing for the people was the resettlement of Chinese residents into New Villages during the Emergency period (1948 – 60)<sup>16</sup>. This resettlement was motivated more by security concerns and the Colonial Administration's strategy of weakening and denying support for the communist insurgency than the desire to provide housing for the populace.

In December 1946, the Colonial Administration appointed a committee to consider and report on the nature and extent of the housing problem in Malaya and the financial and other measures required for its solution. The committee identified two types of housing that needed attention, squatter type dwellings and overcrowded cubicles.

The committee's report on housing problems in Malaya, contained in White Paper no. 70 of 1949, recommended the establishment of a Housing Trust with powers to lease or purchase and hold land and buildings, to build houses, shops and shop-houses, and to sell, lease or let land and buildings. The Trust was empowered to acquire land in accordance with existing law and to borrow and raise capital or make loans.

After Merdeka the federal Government paid more specific attention to the housing needs of the lower income groups and with the introduction of the New Economic Policy in 1971, housing programmes undertaken by both the public and private sectors have been directed towards meeting specific needs of the population. Governments the world over have concerned themselves with the provision of adequate housing to meet the needs of their populace. Public intervention in housing

<sup>15</sup> Draft of the Development Plan of the Federation of Malaya (1950 – 1952)

<sup>16</sup> Mohd Razali Agus (1986b), 'Politics of Housing' and (1992b) 'Housing Development and the Urban Kampung'

markets ranges from the provision of subsidies for low-income households to the construction of public low-cost housing for poorer households. In Malaysia, the provision of cheap housing as a basic social need has been emphasized in its social development programmes<sup>17</sup>.

Dr. Mahathir bin Mohamad, Y.A.B. Perdana Menteri Malaysia, in his working paper presented to the inaugural meeting of Majlis Perdagangan Malaysia in February 1991 categorically stated that “*Kita mesti menyediakan kemudahan yang secukupnya dari segi tempat berlindung, . . .*”<sup>18</sup> The post-Merdeka concept of housing advanced from the provision of housing for government servants to the concept of a home-owning democracy. In the Second Five-Year Plan (1961 – 65), the housing policy was concerned with the provision of affordable housing as a basic social need. Under this concept, rural public housing programmes implemented by the Housing Trust were targeted specifically towards rural poor households with incomes below RM. 300 a month.<sup>19</sup>

Table 2.1 - Allocation for Public Housing in National Development Plan				
Development Plan Period	Original Allocation (million RM)	% of Total	Revised Allocation (million RM)	% of Total
Second Malaysia Plan (1971 – 75)	171.89	2.4	239.97	2.7
Third Malaysia Plan (1976 – 80)	710.15	3.8	1,965.52	6.1
Fourth Malaysia Plan (1981 – 85)	1,458.00	3.7	4,066.48	8.3
Fifth Malaysia Plan (1986 – 90)	1,979.64	4.9	3,979.64	9.0
Sixth Malaysia Plan (1991 – 95)	803.00	1.5	2,056.00	3.5
Seventh Malaysia Plan (1996 – 2000)	2,875.00	4.3	-	-

<sup>17</sup> Fifth Malaysia Plan, 1986 – 1990 and Sixth Malaysia Plan, 1991 – 1995.

<sup>18</sup> Malaysia: Melangkah Ke Hadapan, Kertas Kerja yang dibentangkan oleh Y.A.B. Perdana Menteri di Mesyuarat Pertama Majlis Perdagangan Malaysia, 28 February 1991, Jabatan Pencetakan Negara, Kuala Lumpur 1991

<sup>19</sup> Federation of Malaysia, Second Five-Year Plan, 1961 – 65 and Mohd Razali Agus (1986b), ‘Politics and Housing’

The First Malaysia Plan (1966 – 70) stressed the role of the Government in providing low-cost housing as “one of the major efforts of the government to promote the welfare of the lower income groups”.<sup>20</sup>

Public housing programme in Malaysia falls under the social sector of the national development strategy and generally, the allocation of this sector is of lower priority than the economic sector. As an example, in the Seventh Malaysia Plan (1995 – 2000), the social sector had the second biggest budget (29.3%) after the economic sector (50.0%). From 1971 – 2000, the allocation for the public housing development expenditures has never exceeded 10 percent of the total national development expenditure.

Though housing was not specifically a strategy of the New Economic Policy, nevertheless the provision of affordable and adequate housing particularly to the increasingly urbanised Bumiputra working and middle class was necessary. New agencies were therefore necessary to address the need for public housing and agencies such as State Economic Development Corporations (SEDCs) and Urban Development Authority (UDA) and Syarikat Perumahan Pegawai-pegawai Kerajaan (SPPK) were established and the Government continued to play an important role in public housing programmes in both urban and rural areas.

However, the overall national objective on housing remained the same during the second half of the New Economic Policy era with the Government ensuring that all Malaysians, regardless of ethnic group or income, have access to adequate and affordable housing. Mohd Razali Agus observed that a number of measures were taken to bring housing within the reach of the people, including innovations in planning and design of low-cost houses, Measures to reduce the costs of constructions and thus housing included higher-density development, standardization of infrastructural facilities and the use of lower-quality finishes with appropriate modification in the design. A National Consultative Council on Housing was launched in 1980, representing both the public and private sectors, to provide a forum for continuous dialogue to resolve the problems affecting the residential (housing) industry. Since 1981, the Ministry of Housing and Local Government has

<sup>20</sup>

First Malaysia Plan, 1966 - 70

introduced and implemented a concept of low-cost housing incorporating the following characteristics –

- (1) Selling price not exceeding RM.25,000 per unit
- (2) Target groups are households with a monthly income not exceeding RM. 750
- (3) Housing types included flats, single-storey terrace or detached houses; and
- (4) Minimum design included standard built-up area of 550 – 600 square feet, two bedrooms, a living room, a kitchen and a bathroom-cum-toilet.

The National Economic Action Council in its National Economic Recovery Plan – Agenda for Action in 1998 on the issue of housing for the poor, concluded that –

(1) affordable housing in the Klang Valley, Johor Bahru and Pulau Pinang should be in the range of RM. 200,000.00 and below based on the household income level. For households with an income of RM. 750 – RM. 1000 per month, the housing affordability is around three times the annual household income, i.e. RM.27,000 – RM.36,000.00.

(2) adopt a more flexible ceiling price for low-cost housing. The ceiling price of RM.25,000 for low-cost housing has been questioned because the price, which has not been changed for the over the past 15 years does not take into account inflation and rising input costs.

(3) For rural areas and depressed urban centers, the RM.25,000 limit could be raised to RM. 35,000 – RM. 40,000; for developed urban centers, a new level of low medium-cost housing units (with 3 bedrooms, 2 baths and not less than 800 square fee) and priced at RM. 60,000 – RM.75,000 each could be considered. The low-cost housing provision should be exempted here and replaced by low

medium-cost housing, for which a minimum quota of 30 percent of total built-up units should be imposed in order to avoid the creation of urban slums. For luxurious and expensive areas, the exemption of low and medium-cost housing should remain. It should be noted that following the recommendations of the NEAC, the Government adopted this particular proposal.

(1) View the development of low-cost housing in an integrated manner. Developers can only continue to supply low-cost housing at RM.25,000 because of cross subsidisation from the high cost units. Should the demand and supply of high cost houses become limited because of the difficulty of obtaining finance by buyers or developers, there will be much less motivation by developers to build low-cost houses at the controlled price.

(2) The development of low cost housing should be supported by shop houses and infrastructure. There is the need to fine-tune the credit policy so that banks can look favourably towards the development of shop houses if developers can convince the banks about their viability.

(3) There is a strong case for the Federal Government, State Governments and local authorities to build low-cost houses for rental at nominal rates to low-income Malaysians who are unable to purchase housing units.

(4) State Governments should consider providing land for low-cost housing to private developers for them to build low-cost housing within the ceiling price. Private developers with land banks acquired at a low cost should consider helping out in low-cost housing development

(5) The Government should formulate a proper immigrant housing policy to prevent the sprouting of slums in the country. A housing level should be imposed on employers for each immigrant employed to defray the cost of providing low-cost housing for rental to the immigrants. Employers are also encouraged to provide houses or hostels for their workers.



Table 2.2			
PRICE OF LOW COST HOUSES (EFFECTIVE FROM 10 JUNE 1998)			
Location based on cost of land per square metre	Selling Price per Unit (RM)	Types of houses suitable for construction	Targeted Monthly Household Income (RM)
A (RM45 & above)	42,000	Apartments ( More than 5 storey with elevators )	1,200 to 1,500
B (RM15 - RM44)	35,000	5 storey Apartments ( without elevators )	1,000 to 1,350
C (RM10 - RM14)	30,000	Terrace and Cluster	850 to 1,200
D (below RM10)	25,000	Terrace and Cluster	750 to 1,000

For the states of Sabah and Sarawak, the developer is allowed to increase the price by not more than 20% of the selling price above.

Source: National Statistics Department

Table 2.3			
PRICES OF MEDIUM COST HOUSE (EFFECTIVE FROM 20 AUGUST 2000)			
Location based on cost of land per square metre	Selling Price per Unit (RM)	Types of houses suitable for construction	Targeted Monthly Household Income (RM)
A (RM45 & above)	70,000	Apartments ( More than 5 storey with elevators)	Between 1,700 and 2,600
B (RM15 - RM44)	60,000	5 Storey Apartments ( without elevators )	Between 1,500 and 2,500
C (RM10 - RM14)	53,000	Terrace and Cluster	Between 1,350 and 2,000
D (below RM10)	48,000	Terrace and Cluster	Between 1,200 and 1,800

For the states of Sabah and Sarawak, the developer is allowed to increase the price by not more than 20% of the selling price above.

Source: National Statistics Department

Table 2. 4

**TARGETS AND ACHIEVEMENTS OF PUBLIC AND PRIVATE SECTOR HOUSING FOR THE SEVENTH MALAYSIA PLAN ( 1996 - 2000 )**

( unit )

STATE	TARGETS						ACHIEVEMENT ( 1996 - 2000 )											
	Housing for hardcore poor	Low Cost	Medium-Low Cost	Medium Cost	High Cost	Total	Housing for hardcore poor	% of Target	Low Cost	% of Target	Medium-Low Cost	% of Target	Medium Cost	% of Target	High Cost	% of Target	Total	% of Target
Public Sector	35,000	60,000	110,000	20,000	5,000	230,000	17,229	49.2	60,999	101.7	18,782	17.1	21,748	108.7	2,866	57.3	121,624	52.9
Low Cost Housing	-	29,000	-	-	-	29,000	-	-	45,583	157.2	-	-	-	-	-	-	45,583*	157.2
Restoration of House	23,000	-	-	-	-	23,000	13,626	59.2	-	-	-	-	-	-	-	-	13,626**	59.2
Land and Facilities	12,000	-	-	-	-	12,000	3,603	30.0	-	-	-	-	-	-	-	-	3,603	30.0
Housing and Commercial	-	23,000	16,000	10,000	5,000	54,000	-	-	11,693	50.8	16,002	100.0	9,048	90.5	2,866	57.3	39,609	73.4
Housing in Land Schemes	-	8,000	1,000	300	-	9,300	-	-	3,723	46.5	230	23.0	3,235	1,078.3	-	-	7,188	77.3
Government Quarters	-	-	93,000	9,700	-	102,700	-	-	-	-	2,550	2.7	9,465	97.6	-	-	12,015	11.7
Private Sector	-	140,000	240,000	110,000	80,000	570,000	-	-	129,598	92.6	53,800	22.4	206,208	187.5	348,250	435.3	737,856	129.4
Private Developer	-	137,000	237,000	102,000	79,000	555,000	-	-	127,514	93.1	49,035	20.7	201,266	197.3	346,338	438.4	724,153	130.5

Table 2. 4

**TARGETS AND ACHIEVEMENTS OF PUBLIC AND PRIVATE SECTOR HOUSING FOR THE SEVENTH MALAYSIA PLAN ( 1996 - 2000 )**

( unit )																		
STATE	TARGETS						ACHIEVEMENT ( 1996 - 2000 )											
	Housing for hardcore poor	Low Cost	Medium-Low Cost	Medium Cost	High Cost	Total	Housing for hardcore poor	% of Target	Low Cost	% of Target	Medium-Low Cost	% of Target	Medium Cost	% of Target	High Cost	% of Target	Total	% of Target
Co-operatives	-	3,000	3,000	8,000	1,000	15,000	-	-	2,084	69.5	4,765	158.8	4,942	61.8	1,912	191.2	13,703	91.4
TOTAL	35,000	200,000	350,000	130,000	85,000	800,000	17,229	49.2	190,597	95.3	72,582	20.7	227,956	175.4	351,116	413.1	859,480	107.4

## Notes

\* Including houses under the Public Housing Programme

\*\*including houses under Housing Loan Schemes under the Ministry of Housing and Local Government

Source: National Statistics Department

Mohd Razali Agus (1997) observed that the progress of housing development in Malaysia has been gradual and quite impressive despite various constraints and weaknesses. He is also of the opinion that with public housing programmes continuing to include the implementation of medium and high-cost housing units, the performance of the low-cost housing programme has been adversely affected. In view of this, public sector involvement in medium and high cost housing should be downplayed and greater attention paid to the construction of low-cost housing.

Table 2.5

<b>DEMAND ACCORDING TO STATES, 2001 - 2005</b>			
<b>(Unit)</b>			
<b>STATES</b>	<b>TOTAL DEMAND</b>	<b>NEW DEMAND</b>	<b>REPLACEMENT</b>
JOHOR	90,174	85,656	4,518
KEDAH	55,514	51,247	4,267
KELANTAN	54,272	49,051	5,221
MELAKA	20,591	19,035	1,556
NEGERI SEMBILAN	30,753	27,088	3,665
PAHANG	44,642	41,730	2,912
PERAK	76,569	68,085	8,484
PERLIS	7,672	7,321	351
PULAU PINANG	41,421	40,266	1,155
SABAH	100,034	93,709	6,325
SARAWAK	69,223	65,157	4,066
SELANGOR	106,055	102,492	3,563
TERENGGANU	36,940	33,677	3,263
W. P. KUALA LUMPUR	46,093	45,390	703
W. P. LABUAN	2,347	2,196	151
<b>TOTAL</b>	<b>782,300</b>	<b>732,100</b>	<b>50,200</b>
<b>%</b>	<b>100.0</b>	<b>93.6</b>	<b>6.4</b>

Source: Eighth Malaysia Plan

## **2.4 MODE OF DELIVERY OF RESIDENTIAL (HOUSING) STOCK**

The production and delivery of residential (housing) stock in Malaysia generally follows twelve stages, namely in brief -

- (1) The acquisition/purchase of land
- (2) Securing finance
- (3) Application and issuance of Housing Developers Licence
- (4) Preparation of Plans (Layout, Subdivision, Earthwork, Infrastructure and Services, Building)
- (5) Application and approval of land conversion and subdivision
- (6) Approval of various Plans
- (7) Site clearing and preparation including relocation of existing tenants/squatters
- (8) Application and approval of advertising permits
- (9) Marketing and sale of houses
- (10) Construction of houses
- (11) Issuance of Certificate of fitness
- (12) Delivery/Vacant Possession

The stakeholders involved in the production and delivery of these residential (housing) stocks are –

- (1) The government (including local government)
- (2) The landowners/developers
- (3) The professional consultants
- (4) The financiers,
- (5) The builders; and
- (6) The buyers

Malaysia has in place many regulations and procedures to facilitate and control the sale of residential (housing) units before these units are built. The present mode of delivery of residential (housing) stock, the “sell-then-build”, requires that the developers have enough finance to cover the expenses of getting the plans prepared and approved by the government agencies and the cost of the land. As soon as the advertising permits are obtained from the Ministry of Housing and Local Government, the developers can sell houses and collect payments from the buyers, albeit progressively. Amendments to the Housing Developers (Housing Development Account) Regulations in 1991 ensured that such payments collected can only be spent on specific projects and not for the developers other business ventures. The bottom line is that residential (housing) developers are using the buyers’ progress payments to finance the project.

Though Housing Development Act does not have a preamble describing its statutory objectives and philosophy, the local judiciary has filled in that lacuna by declaring more than once that the Act is primarily intended to protect the house buyers. This is apparent from the decision of the High Court in *Khaw Daw Yau v Kin Nam Realty Development Sdn Bhd* (1983 – 1 MLJ35) and later reinforced by the Federal Court in *SEA Housing Sdn Bhd v Lee Poh Choo* (1982 – 2 MLJ31).

There have also been calls to deregulate the residential (housing) sector of the real estate industry. It has been suggested that Malaysia, at this stage of its development, should adopt the “build-then-sell” concept of delivery of residential (housing) stock. This basically means that residential (housing) stock is only placed on the market after they are built and ready for occupancy. Such a move would eliminate the myriads of problems resulting from abandoned housing projects, complaints of shoddy workmanship and non-compliance with advertising claims. However, it may compound further the burden of property overhang and mismatch.

According to Goh Ban Lee (1997), most developers, professional consultants and builders are against this mode of delivery of residential (housing) stock claiming that it would increase costs to the buyers. The “build-then-sell” mode of delivery would mean that the developers would have to have adequate finance to cover the projects until they are completed.

The developers claimed that in the “build-then-sell” system, the cost of the bridging finance would be passed on to the purchasers, thus resulting in increased cost. Goh Ban Lee (1997) said this is a moot point because, under the present system, they purchasers are already shouldering the cost of bridging finance as they make progressive payments for their houses. The majority of the purchasers of residential (housing) units take out financing facilities at the time of purchase and financiers release, progressively according to milestones and claims by developers according to the stages of completion of the units, progress payments for the housing units. These funds release by the financiers are interest bearing and the cost is already shouldered by the purchasers.

Goh Ban Lee (1997) further surmised that the “build-then-sell” system does have a serious implication in that it is likely that smaller developers will not survive or there will be fewer new small developers coming into the property sector. Consequently, this may result in fewer numbers of houses being built and thus creating a “shortage”. However, it should be pointed out that this need not necessary be so and the contrary may well happen as the industry will allow only the competitive and financially able developers to survive in such a market, not

withstanding the size of the developers. A quick glance at more developed and liberalized markets in Australia and New Zealand will revealed that many small developers continue to survive and flourish. In fact, these small developers are more agile and better able to cope with the changes within the real estate industry. On a visit (2001) to New Zealand by the Association of Authorised Land Surveyor Malaysia, a New Zealand licensed land surveyor based in New Plymouth remarked that he has not done a subdivision exceeding 50 lots in New Plymouth for the past decade or more. New Zealand has been experiencing a housing boom during this current period with price of housing increasing every successive month over the past twelve months. Obviously, the fate of the small developer was not undermined.

Under the “build-then-sell” system, purchasers will have to pay the market price prevailing at the time the houses are completed and ready to be delivered or sold. In times of rapid appreciation of property prices, there would be a marked difference between the price of houses between the time the advertising permits are issue and ready to be sold under the “sell-then-build” system and the time the houses are completed and ready to be sold under the “build-then-sell” system. It is argued that the “sell-then-build” system insulated the purchasers from general inflation or increases in the price of materials and labour. During the period of rapid appreciation of property prices, those who booked early and resell after the houses are delivered sometimes make more money per house than the developers and thus give rise to unhealthy speculative forces. However, the converse will be true during times of rapid decline in property prices and Malaysia has not been spared of such times. The 1997 Asian Financial Crisis is one such time where property prices plunges significantly. Paying the market price prevailing at the time of purchase for the completed units is not such a bad idea. Similarly, speculators without sound financial basis will likely to loose more money per house than the developers are expected to during these period.

Consumer associations favour the “build-then-sell” system citing that the system is advantages to the purchasers. These obvious advantages include the fact that they can see, touch and feel the completed buildings and the general environment before committing to the purchase. Defects in the workmanship or non-compliance in the provision of facilities or governmental requirements will no longer



be an issue. Further more, purchasers do not need to be worried whether their housing project will be abandoned by the developer nor delays in obtaining vacant possession including the issuance of certificate of fitness.

As at the end of September 2001, it was reported that there are 1520 active housing developers. In the year 2000, the Ministry of Housing and Local Government received 1823 complaints, a steep rise from 737 in 1997 and 446 in 1990. The complaints were on defective work, no certificates of fitness, late delivery of houses, violation of the agreement, fraud and lack of infrastructure such as access roads and drains. Some 99 cases were filed in court from 1985 to 1990 and this increased to 935 from 1991 to 2000. Similarly, the Ministry is reported to have identified 59 abandoned housing projects over the last five years.

It is interesting to note that sub-section (9) of section 7A Housing Development (Control and Licensing) Act makes it very clear that it is the obligation of every licensed housing developer to open and maintain a housing development account as long as any sale and purchase of the residential (housing) units take place before the issuance of the certificate of fitness for occupation. This could mean that when the sale and purchase is carried out after the issuance of certificate of fitness for occupation, then such housing development account need not be pursued. This then is an incentive for those housing developers engaging in “built-then-sell” system.

The recent amendments to the Housing Developers Act have considered the many cries and appeals of the consumer groups that have clamoured for more protection under the principal Act. It is often said that Malaysia do enact beautiful laws but the enforcement component is always lacking.

Goh Ban Lee (1997) pointed out that the “build-then-sell” system has another advantage. It reduces the workload of the Ministry of Housing and Local Government. There is no need to implement and enforce the many regulations created under the “sell-then-build” system to safeguard purchasers who essentially make payments to the developers on the strength of the promises printed in beautiful advertisements.

The question remains, particularly with the exhaustive amendments to the Housing Development Act as to whether the industry should move towards greater self-regulation and respect for market forces. Shouldn't the government-of-the-day rid itself of the need to police every inch of the housing development industry and instead concentrate its effort towards enhancing quality of life and competitiveness of the overall real estate industry? What about the longer term effect – bowing to consumer pressure and fixing present woes by extensively amending the Housing Development Act may not necessary prepare the housing development industry in particular, the construction industry in general to meet the challenges of a vibrant, competitive and borderless land market.

The Housing Developers (Control and Licensing) (Amendment) Act 2002 is too prescriptive, trying to micro-managed an industry that should be nudged towards and better served by embracing knowledge, innovation and world's best practices, self-regulation and market forces.

## **CHAPTER III**

### **DATA COLLECTION**

The collection and analyses of data are specific activities within this study with the primary objective of collating views, preferences and opinions and the intention to gain an insight and understanding of –

- (1) the inevitability of globalisation and liberalization on the residential (housing) sector of the real estate industry;
- (2) the preferences of the home owning public vis-à-vis the method of delivery of housing stocks; and
- (3) the preference for the residential (housing) sector to adopt “build-then-sell” concept of delivery of housing stock.

The data collection programme is intended to supplement the literature review that had been carried out as well as to complement various views and opinions that were gathered through various forums and discussions during the course of the study.

### **3.1 The Strategy for the Data Collection Programme**

The data collection programme was designed with the intention to solicit by way of a questionnaire the views, preferences and opinion of a segment of the general public residing in the Klang Valley.

However, the identity of the respondent will remain anonymous, as the questionnaire does not require the respondent to identify him or herself by name, ethnicity or creed.

### **3.2 The Scope of the Data Collection Programme**

A total of eighty-two questionnaires were distributed to a cross section of the general public residing in the Klang Valley including personalities within the Property Consultancy and Valuation Surveying fraternity<sup>1</sup>.

The eighty-two questionnaires were distributed in early April 2003 and the recipients were requested to respond as soon as possible within a target response deadline, which was 21<sup>st</sup> April 2003. This short response time was so designed to be deliberate and intentional, to ensure that recipients of the questionnaire –

- (1) expeditiously respond to the request; are more importantly
- (2) spontaneously respond with views, preferences and opinions without much fanfare or dwelling on thoughts.

The data was collected within a window of approximately fourteen days in April 2003 and thus represented a set of very current data.

---

<sup>1</sup> A total of 21 questionnaires were faxed to a selected group of Property Consultants and Valuation Surveyors in early April.

### **3.3 The Structure of the Questionnaire**

The questionnaire was structured into six sections with a preamble stating clearly the objective of the questionnaire, which was a study into the impact of globalisation and market liberalization on the delivery of residential properties.

#### **3.3.1 Preamble of the Questionnaire**

The preamble of the questionnaire clear stated that the survey is part of a study into the impact of globalisation and market liberalization on the delivery of residential properties and requested the recipients to provide relevant feedbacks to the best of their ability. The deadline for the return of the questionnaire, 21<sup>st</sup> April 2003 was also indicated.

#### **3.3.2 Section A of the Questionnaire**

Under the heading of “General” the recipients were asked the three questions and the solicited responses were either a “yes” or a “no”.

The rationale for this set of questions is to ascertain the general awareness of the respondent of the topic.

#### **3.3.3 Section B of the Questionnaire**

Under the heading of “Preferences” the recipients were asked only one question in this Section. The recipients were to assume that they are considering purchasing a new property as a home, and indicate their preferences to three scenarios,

1 being the first preference, 2 being the second preference and 3 being the last preference. The three scenarios were –

(1) Buy based on the developer's proposed scheme and pay (by you or your lending bank) progressively during the construction until completion and the issuance of the Certificate of Fitness

(2) Buy based on the developer's proposed scheme and pays 10% deposit with the balance amount paid (by you or your lending bank) upon issuance of Certificate of Fitness.

(3) Buy from the developer completed unit that already has Certificate of Fitness with full payment (by you or your lending bank)

The rationale for this particular question is to ascertain the general preferences for the three modes (scenarios) for the delivery of residential (housing) stock, in this case, their assumed new home.

#### **3.3.4 Section C of the Questionnaire**

This section has the heading "Property Ownership" and is intended to gather background information about the respondents with respect to their home ownership as well as to understand whether the respondents purchased their home new i.e. from the developer, or through the secondary market. The recipients are requested to response either a "yes" or a "no" or indicate accordingly to the set of questions.

### **3.3.5 Section D of the Questionnaire**

This section has the heading “About the Respondent” and is also intended to gather background information about the respondents, their gender, age bracket, income bracket and job function. Key to this set of questions is the request for the respondent to indicate as to whether they are engaged in the property development and related services industry. The questions were structured in such a way that respondent will have to indicate a particular response except for the last questions, where a “yes” or a “no” response is requested.

The respondent will remain anonymous and faceless in this study as not other information about the respondent was requested in the questionnaire.

### **3.3.6 Section E of the Questionnaire**

Under the heading of “Opinion” the recipients were to provide two opinions. Two questions were asked and the solicited response was either a “yes” or a “no”. The two opinions were –

(1) Based on your own understanding about the ongoing globalisation and the liberalization of the property industry, do you think the Malaysian property industry will need to change the way it has been delivering properties to purchasers all these years?

(2) Do you think, in a globalised and liberalized economy, those Malaysian property developers should -

(a) continue with the “sell-then-build” approach? (that means the purchaser buy “off-the-plan” property, pay progressively and waiting patiently for the developer to hand over the completed unit)

(b) adopt the “built-then-sell” approach? (that means the purchaser will buy ready-to-occupy units from the developer)

This is an important section of the questionnaire where the respondents will provide their opinion to two issues at the core of the study.

### **3.3.7 Section F of the Questionnaire**

The last section of the questionnaire, under the heading “Your Comments (if any)” intended to provide the respondents with the opportunity to write down any relevant comments associated with the topic under study. It was also the hope that respondents who are keenly aware of the issue at hand could provide relevant comments that would further broaden the ongoing debate as well as highlighting additional issues that may not have been considered up to this stage of the study.

## **3.4 The Questionnaire**

A copy of the questionnaire is included under Appendix I



## **CHAPTER IV**

### **FINDINGS AND DISCUSSION**

#### **4.1 THE RESPONSES**

##### **4.1.1 Introduction**

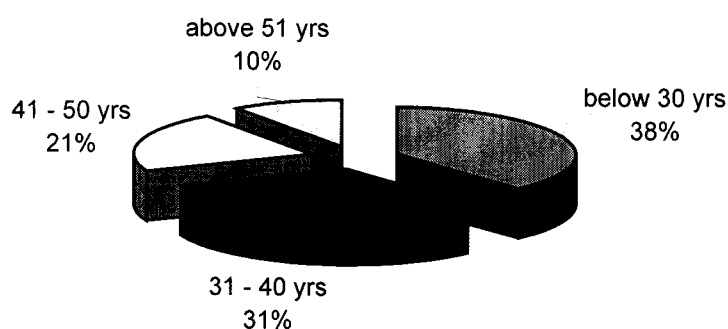
A total of fifty-seven (57) responses were received by the stipulated deadline, a response rate of 69.5%. This high response rate, two out of three questionnaires sent were returned, was most encouraging. The analysis of the fifty-seven responses indicated that 51% are female and 49% are male.

**Chart 4.1 - Gender of the Respondents**



37% of the respondents were below 30 years old, 31% of the respondents were aged between 31-40 years old. 21% of the respondents were aged between 41 - 50 years old and 11% were above 51 years old.

**Chart 4.2 - Age Groups of the Respondents**



#### **4.1.2 Respondent's Background**

The section had the heading "About the Respondent" and was intended to obtain background information about the respondents' gender, age bracket, income bracket and job function. A key feature of this data collection exercise and probably resulting in a higher than expected response rate (69.5% or 7 out of 10) was the fact that respondent will remain anonymous in this study.

(1) Of the fifty-seven respondents, twenty-nine (50.9%) are females and twenty-eight (49.1%) are males.

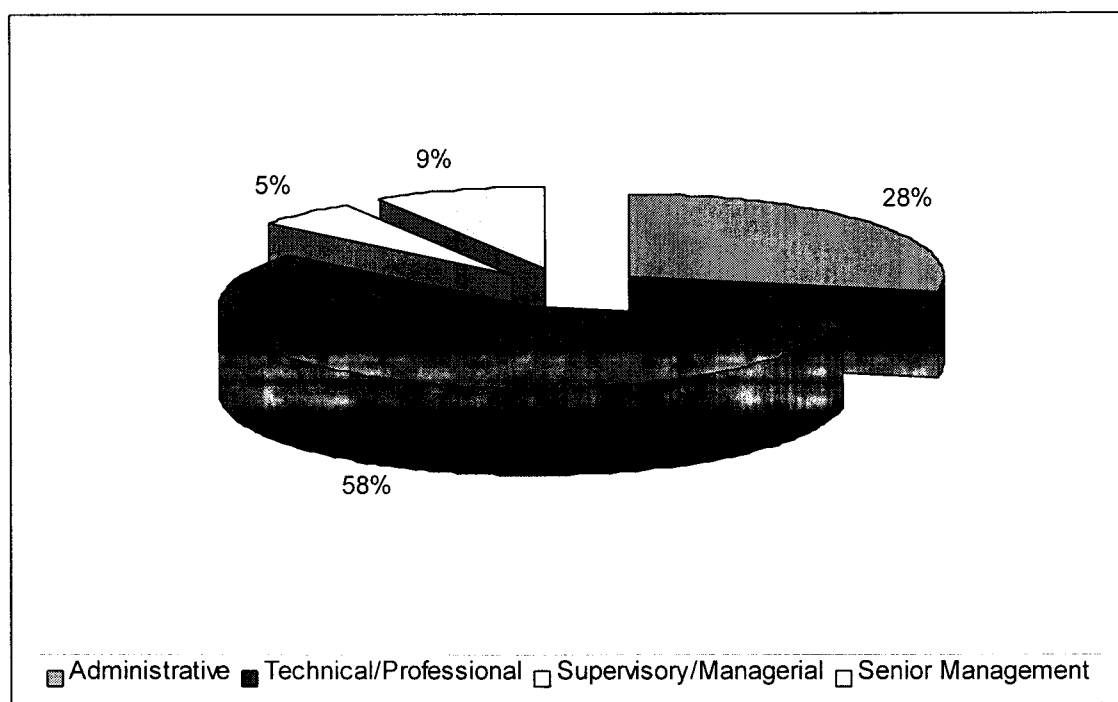
(2) Of the fifty-seven respondents, twenty-one (36.8%) are below thirty years of age, eighteen (31.6%) are between the age of thirty-one and forty, twelve (21.1%) are of the age of forty-one and fifty and six (10.5%) are above fifty-one years old.

(3) As to the question on annual income bracket, unusually a very sensitive and private subject, fifty-five out of fifty seven responded. Of the fifty-five that responded, thirty (54.6%) indicated that their annual income is below RM. 25,000.00, fifteen (27.2%) have an annual income of between RM. 25,001 and RM. 60,000.00. The remaining ten (18.2%) has an annual income of above RM. 60,000.00.

(4) All fifty-seven respondents answered this question. Sixteen (28.1%) described their duties as administrative and thirty-three (57.9%) described their duties as technical/professional. A further three (5.3%) described that they are engaged in supervisory/managerial duties and five (8.8%) indicated that they are engaged in senior management.

(5) Thirty-two (56.1%) of the fifty seven respondents said that they are engaged in the property development and related services/industry and twenty-five (43.9%) indicated that they are not.

**Chart 4.3 – Nature of the Respondents Jobs**



A cursory analysis indicated that the gender and age grouping spread of the respondents are healthy and that approximately one out of two are engaged in the

property development and related services industry. This would indicate that the respondents are generally knowledgeable about property development with 56.1% amongst them have a greater and even in depth understanding of the property development industry. It could thus be inferred that the sampled data is of a reasonably high quality with respect to this study.

#### **4.1.3 Residential Property Ownership**

The section with the heading “Property Ownership” was intended to gather background information about the respondents with respect to home ownership. The responses obtained were as follows –

(1) 64.9% (37 out of the 57 respondents) owned the place they are currently residing at and 35.1% (20 out of the 57 respondents) do not own the place they are currently staying in. This indicated a high level of home ownership among the respondents, a ratio of approximately two out of three owned the place they are currently staying in.

(2) 20% (11 out of the 55 who responded to this question) stays in Apartment/Condominium Units (Strata Title Development); and 80% (44 out of the 55 who responded) stayed in House {Terrace/Semi-detached/Bungalow} (Landed Property Development). Landed development is still the preferred development, as four out of five of those responded lives in houses as against apartments or condominiums.

(3) The responses to this question appeared somewhat confused initially as the numbers to do tally. In the earlier part of this section of the questionnaire, thirty-seven of the respondents indicated that they owned the property they are currently staying in and yet fifty responded to this question. The only inference that could be drawn is that out of the twenty who do not own the place that they are currently staying in, thirteen among them owned properties and thus residential property ownership among the respondents can be inferred to be as high as 87.7%.

Of the fifty who responded, twenty-six (52%) purchased their property directly from the developer (a new unit) and thus it could also be inferred that the other 48% purchased either completed new units or from the secondary market.

(4) Out of the twenty-six who should have responded to this question, twenty-five actually responded to Part (a) and twenty-two responded to Part (b) of the question. Again, the responses do not tally as nineteen (76%) out of twenty-five have to book the property from the developer before it was built. However, eleven (50%) out of twenty-two indicated that they bought a new property directly from the developer after it was built. One possible explanation is that the respondents have purchased more than one unit of residential (housing) property and were thus responding accordingly as the questionnaire was not clear about whether it was related to their first property they owned or all owned properties.

(5) Out of the twenty-four who should have responded to this question, twenty actually responded to Part (a) and seventeen responded to Part (b) of the question. Fifteen (75%) out of the twenty who responded bought an old or existing property on the secondary market. Of the five who did not do so, three (15%) indicated that the property they are staying in was a gift or an inheritance. There were no indications from two (10%) of the twenty respondents to this question.

A cursory analysis of the responses indicated that the overwhelming majority (87.7%) of the respondents are residential property owners and 52% amongst them purchased their properties directly from the developers (a new unit) 48% purchased completed (built) units new from the developers or from the secondary market.

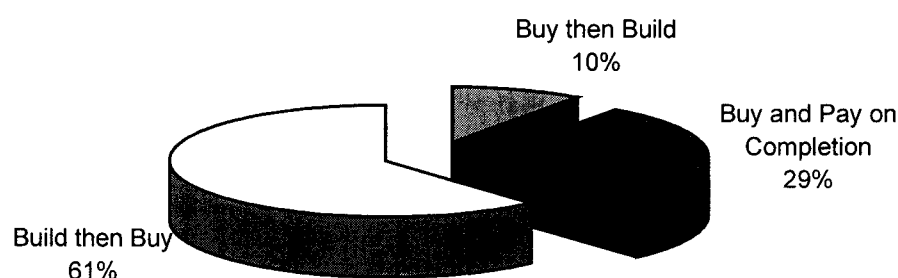
#### **4.1.4 House Buying Preferences**

In the section under the heading of “Preferences” the recipients were asked to indicate their preferences to three set scenarios and 52 out of 57 respondents participated in this section, representing a response rate of 91.2%

(1) Of the fifty-two who responded, five (9.6%) responded that it is their first choice to buy based on the developer's proposed scheme and pay (by them or their lending bank) progressively during the construction until completion and the issuance of the Certificate of Fitness. Six (11.5%) other responded that it was their second choice and forty-one (78.9%) indicated this is their last preference.

(2) Of the fifty-two who responded, fifteen (28.9%) indicated that it is their first preference to buy based on the developer's proposed scheme and pays 10% deposit with the balance amount paid (by them or their lending bank) upon issuance of Certificate of Fitness. Another twenty-nine (55.7%) responded that this would be their second preference and eight (15.4%) indicated that this is their third choice.

**Chart 4.4 – Preferences of the Respondents**



■ Buy then Build ■ Buy and Pay on Completion □ Build then Buy

(3) Thirty-two (61.5%) out of the fifty-two respondents indicated that their first preference is to buy from the developer completed unit that already has Certificate of Fitness with full payment (by them or their lending bank). Fifteen (28.9%) indicated this as their second preference and five (9.6%) indicated that this is their third choice.

The responses indicated that 61.5% of those who responded, a clear majority, a ratio of almost two out of three, preferred the “build-then-sell” mode of delivery, i.e., to buy from the developer completed unit that already has Certificate of Fitness with full payment by them or their lending bank. 28.9% of those who responded preferred the modified “sell-then- build” mode of delivery where the respondents are willing to buy based on the developer’s proposed scheme and pays a 10% deposit with the balance amount paid by them or their lending bank upon issuance of Certificate of Fitness, which would mean vacant possession. Only 9.6% of those who responded preferred the present mode of delivery of residential (housing) stock, the “sell-then-build” mode, i.e. to buy based on the developer’s proposed scheme and pay progressively, either by them or through their borrowings from lending banks, during the construction period based on stipulated milestone until completion and the issuance of the Certificate of Fitness.

#### **4.1.5 General Awareness of Market Liberalisation**

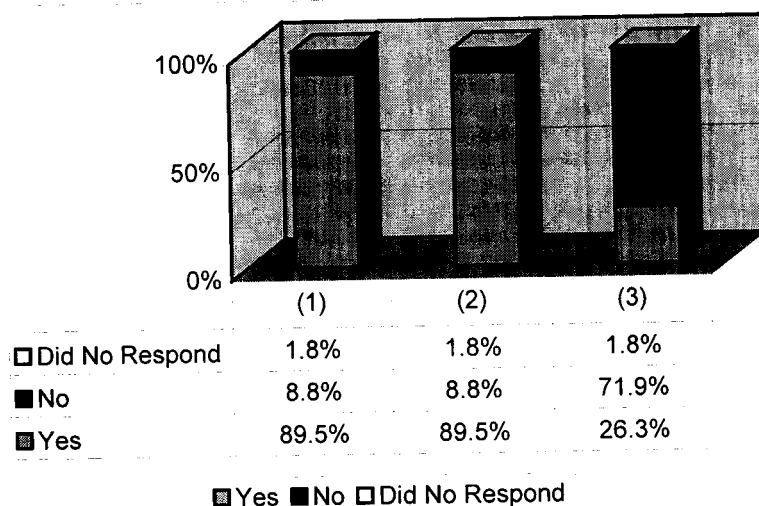
In this section titled “General”, three questions were asked and the response required was either a “yes” or a “no”. The responses are –

(1) Are you aware that the national economy is progressively liberalized? Out of the 57 respondents, 56 answered this question representing a response rate of 98.2%. 51 (89.5%) responded ‘yes’; 5 (8.8%) responded ‘no’ and 1 (1.7%) did not respond indicating that the awareness of the national economy is progressively liberalized is indeed very high.

(2) Are you aware that the national economy is increasingly being integrated into the global economy (globalised)? Out of the 57 respondents, 98.2% or 56 answered this question. 51 (89.5%) responded ‘yes’; 5 (8.8%) responded ‘no’ and 1 (1.7%) did not respond indicating that there is a high level of awareness of the increasing integration of the national economy into the global economy.

(3) Are you aware that the property industry (market) is also undergoing progressive liberalization and globalisation. 56 of the 57 respondents answered this question and 15 (26.4%) responded 'yes' with 41 (71.9%) responded 'no' and 1 (1.7%) did not respond. There is a lack of awareness that the property industry (market) is undergoing progressive liberalization and globalisation.

**Chart 4.5 – General Awareness**



- (1) The National economy is progressively liberalized  
 (2) The National economy is increasingly integrated into the global economy  
 (3) The Property Industry is progressively liberalised

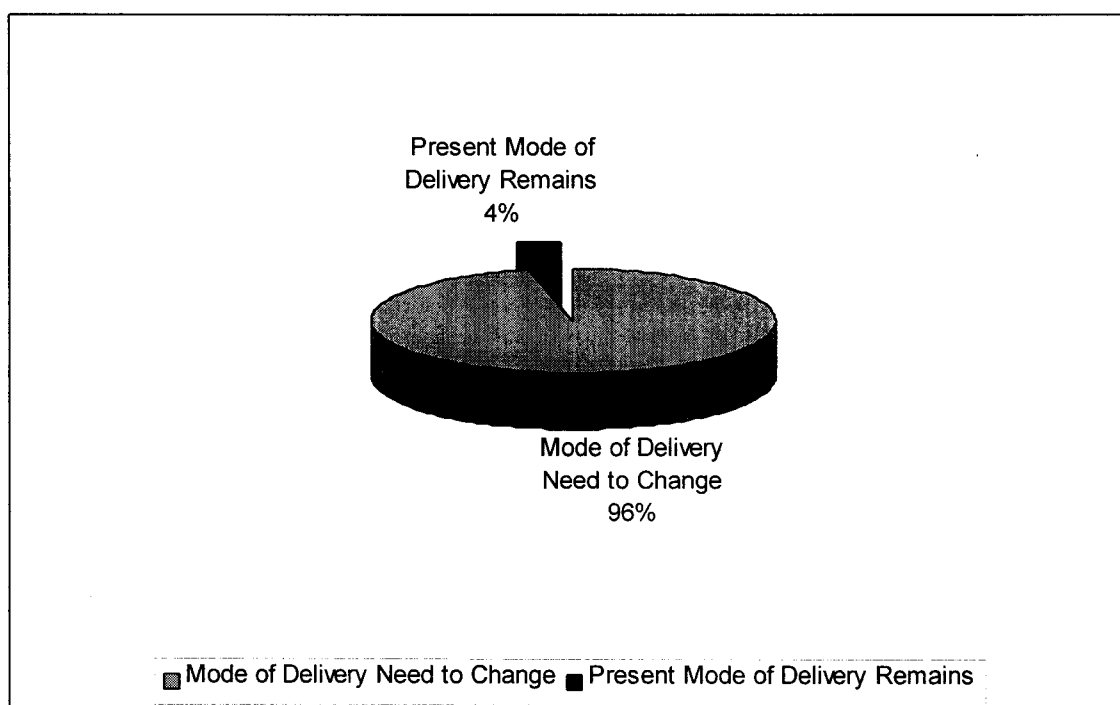
Though the respondents are highly aware (89.5% of the total number of respondents) of the ongoing liberalization of the national economy, only 26.3% of the total number of respondents is aware that the property industry (market) is also being progressively liberalized and globalised. Looking from another angle, it could be inferred that 26.3% of the total number of respondents thinks that the property industry (market) is undergoing progressive liberalization and globalisation, which is approximately 1 in 4 in terms of ratio.



#### 4.1.6 Respondent's Opinion

The set of questions prepared was meant to solicit an understanding of the general opinion of the respondents. Under the heading of “Opinion” in the questionnaire, the recipients were to provide their opinions to two issues at the very core of the study. Unfortunately, not all fifty-seven respondents provided their responses to this set of questions.

**Chart 4.6 – Mode of Delivery of Residential (Housing) Properties**

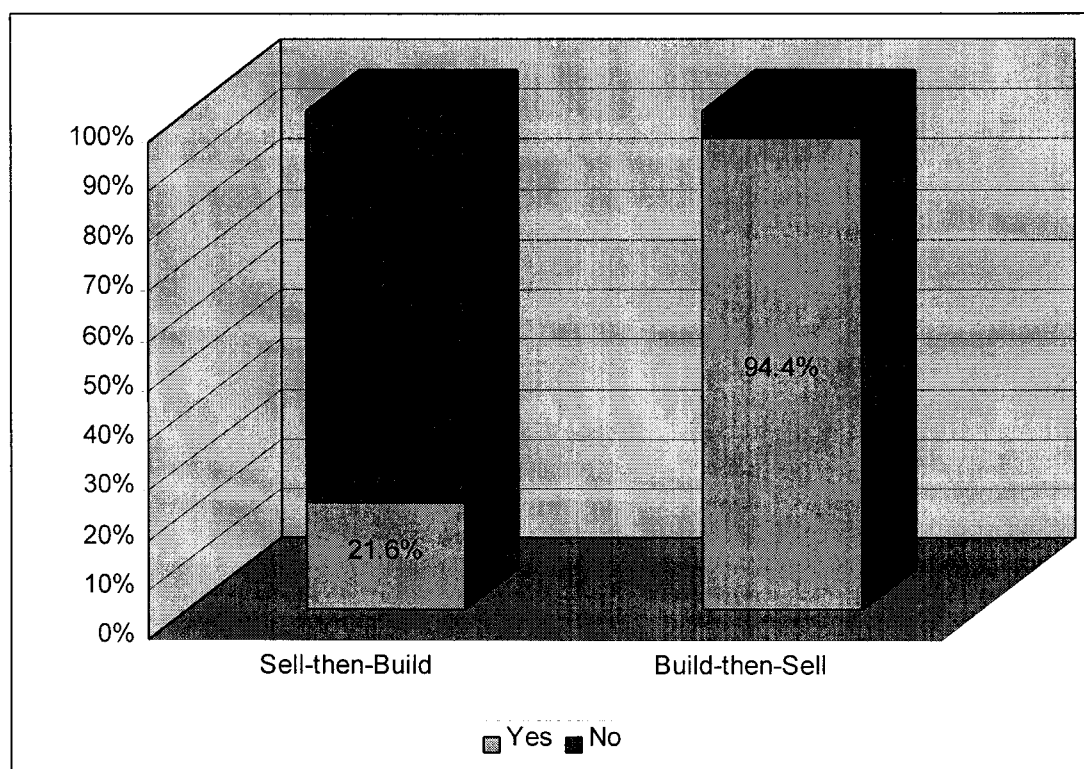


(1) Out of fifty-six responses, fifty-four (96.4%), based on their own understanding about the ongoing globalisation and the liberalization of the property industry, opined that the Malaysian property industry will need to change the way it has been delivering properties to purchasers. Only two (3.6%) opined that the present mode of delivery need not be changed.

(2) Eleven (21.6%) of the fifty-one indicated that in a globalised and liberalized economy, Malaysian residential property (housing) developers should continue with the “sell-then-build” approach. However, fifty-one (94.4%) of the fifty-four who provided their response are of the opinion that Malaysian residential property (housing) developers should adopt the “built-then-sell” approach.

The opinions expressed were most interesting as the overwhelming majority of the respondents opined that the delivery system has to be changed and that developers should adopt a “built-then-sell” approach.

**Chart 4.7 – Opinion on Mode of Delivery of Residential (Housing) Property**



#### 4.1.7 Respondent's Voluntary Comments

A total of ten (17.5%) respondents submitted written comments. Of the ten, seven (70%) said that they are engaged in the property development and related services industry and three (30%) are not.

(1) Comments from the seven (7) who said they are engaged in the property development and related services/industry -

(a) Haven't obtained Certificate of Fitness although staying for about 11 years. I think the issuance of CF by local authorities is very poor.

(b) Built-then sell approach is better -

- (i) consumer's right is protected
- (ii) better & responsible practises in the market as a result of Built-then-sell approach
- (iii) consumer can plan better - assumed with CF and can move in as scheduled
- (iv) completion of a project is assured

(c) (i) Sell then build is more affordable to the public due to progressive funding, the cost of financing is reduced is a blinkered viewpoint as the ultimate cost to the consumer due to abandoned projects is much higher due to the risks associated with project abandoned, cost of financing is higher.

(ii) The developer should bear the cost of financing and price is dictated by the market NOT the cost to the developer.

(iii) If a compromise is needed, the second option of pay only 10% until property is completed is a better option, strictly a balance between the two.

(d) (i) Still vague; politics and interpretation especially FIC rulings and levies

(ii) Percentage of allocation between Bumiputra & Non Bumiputra and also non-resident and resident.

(iii) Federal and state politics are at times confusing

(iv) Red tapes at land office level.

(v) Privatised utility companies, e.g. TNB, water utility, telecom etc should bear all infrastructure cost rather than developer and handover to these amenities. This will definitely reduced the selling price of home ownership resulting in more viable development.

(e) (i) Question A2- the currency peg has detached us from the global economy

(ii) Question A3- no evidence of any liberalization

(iii) Question E-2- sell then build has consistently saved Malaysia from gross oversupply and misjudgement.

(f) (i) Buy a completed property from the developer of course with a Certificate of Fitness issued by the relevant authorities. The price of house would invariably be higher due to high holding and development costs.

(ii) When paying for the completed units we are assured about the quality of construction to individual satisfaction. Full payment has to come from us or lending from the bank.

(iii) To a developer who is selling a completed unit, they have to be financially strong as there is no bridging loan involved to finance the construction of the unit.

(iv) Let developers who are in their profession/trade involve in the housing industry. Those developer who are in other trade which like to diversify in property development should not be involve in the first place

(v) Let property based companies with great experience in property development involve in the housing development/market.

(g) (i) The sell then build is a superior system as it enables, in the long run, other things being equal, for house prices to be as low as possible, vis-à-vis householder income

(ii) The downside to it this is there can be abandonment of the scheme by its developer when economic conditions are poor but this can be safeguarded with a good system of project accounts.

(iv) The build then sell will add cost to the development and will filter down as higher prices besides making the industry more monopolistic.

(2) Comments from the three who said they are not engaged in the property development and related services/industry -

(h) (i) A buyer, we hope the developer will be able to sell 'ready to occupy' property.

(ii) It will have no risk to the buyer. Also, the buyers would be able to choose their own unit with the best conditioner and location.

(iii) On the other hand, the developer could have a very strong capture or financing permitted to adopt this build then sell system.

(i) (i) The present system of build then sell has more than 95% success rate. Volume of approximately 120,000 units a year. 5% is 6,000. That is a lot industry could do better than that but more than 40% of working population own their own homes.

(ii) The December 2002, Housing Developer Act will improve the situation. There will be fewer houses over the next few years.

(iii) Malaysia has a good track record second only to Singapore in affordable housing. Total build then sell works in the market above 500k. Below 200k see then build works well under new rules

(iv) In 10 years the number of developers will be reduced and some monopolies will emerge. That's good for property values in the future.

(j) Developer should obtain CF before hand over the properties to buyers. This is important because some of the properties were occupied for few years, some even up to 10 years still holding temporary CF

## **4.2 KEY FINDINGS**

### **4.2.1 Aim of The Study**

It is appropriate at this stage of the thesis to recall the stated aim of this study, that is, to understand –

- (1) the inevitability of globalisation and liberalisation on the residential (housing) sector of the real estate industry;
- (2) the preferences of the home owning public vis-à-vis the method of delivery of housing stocks; and
- (3) the preference for the residential (housing) sector to adopt “build-then-sell” concept of delivery of housing stock.

#### **4.2.2 The Liberalisation Process**

The data collection programme revealed that there is a high level of awareness of the ongoing processes of liberalizing and globalising our national economy. 89.5% of the respondents (51 out of 57 respondents) proclaimed such awareness. This is very healthy, considering the profile of the respondents who represent the cross section of the Malaysian society. However, it must be noted that the entire respondent, though from varying background, are all urbanites living within the Klang Valley.

This high level of awareness is also an affirmation of the tireless efforts of the Government of the Day in educating, disseminating and cascading to the general populace general information about the processes of liberalization and globalisation.

However, the high level of general awareness could not be said of a specific sector of the national economy, in this case, the property industry (market) as only 26.4% of the respondent indicated an awareness of the ongoing processes of liberalization and globalisation within the property industry. Of the 32 respondents (56.1% of those responded) what said that they belong to the property development and related services/industry, This would indicate that within the industry, there is a

reasonable awareness but not sufficiently impressive. The stakeholders within the property industry must all make a concerted effort in educating, disseminating and cascading not only to those within their fraternity but also to the general populace, ongoing efforts and general information about the processes of liberalization and globalisation that they face. This is important to ensure that the property industry is sufficiently readied when the sector is completely liberalised and globalised.

This is urgent and important. In a recent communication between the Ministry of International Trade and Industry and members of Malaysia's delegation<sup>1</sup> to the ASEAN Co-ordinating Committee on Services, among the areas that are considered by Malaysia for further liberalization in the current round of negotiation is that of the real estate services. It must be appreciated that real estate services is part of the wider services sector. At this juncture, it is pertinent to take note that the ASEAN Co-ordinating Committee on Services is tasked with negotiations within the ASEAN Framework Agreement on Services to continually and progressively liberalised and globalised the services sector within ASEAN guided with the goals and objectives as laid out in ASEAN Vision 2020. The ongoing third round of negotiations is scheduled to be concluded in 2004 with another package of services to be liberalised within the context of AFAS.

### **4.2.3 Home Buying Preferences**

#### **4.2.3.1 Sell-then-Build**

The data collection programme revealed that of the fifty-two who responded, only five (9.6%) indicated that it is their first choice to buy based on the developer's proposed scheme and pay the developer progressively during the construction until completion and the issuance of the Certificate of Fitness. This view is held by a cross section of the society. Three among them are female and two are male. In terms of their age profile, two are below 30 years old, two are between 31 and 40

<sup>1</sup> The writer is a member of Malaysia's delegation to the ASEAN Co-ordinating Committee on Services since May 2000.

years old and the remaining one above 51 years old. All five respondents have varying duties at work – administrative (1); technical/professional (2); supervisory/management (1) and senior management (1). Of the five who responded, all indicated that they belong to the property development and related services/industry. The industry's insiders still believes in the present mode of delivery of residential (housing) units.

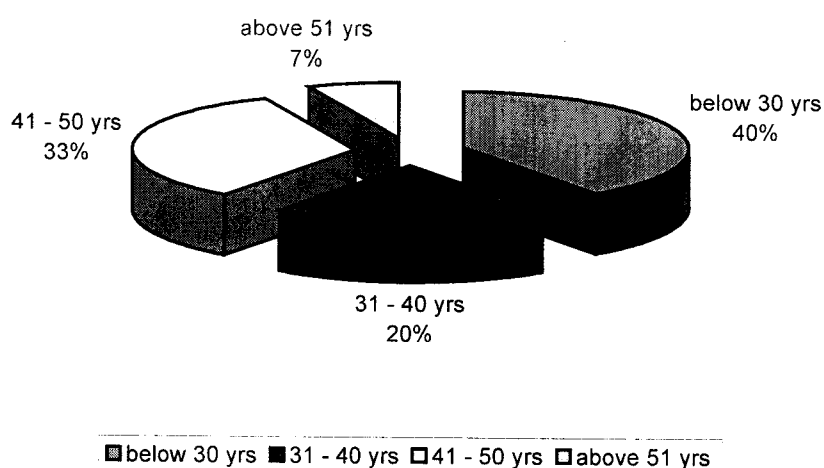
#### 4.2.3.2 Modified Sell-then-Build

Of the fifty-two who responded, fifteen (28.9%) indicated that it is their first preference to buy based on the developer's proposed scheme and pay 10% deposit at the time of purchase with the balance amount paid by them or their lending bank upon issuance of Certificate of Fitness, that means, vacant possession and occupancy. Of these fifteen, it is interesting to note the profile of the respondents following –

(1) Age Groups

(a)	below 30 years old	Six (40.0%)
(b)	31 – 40 years old	Three (20.0%)
(c)	41 – 50 years old	Five (33.3%)
(d)	above 51 years old	One (6.7%)

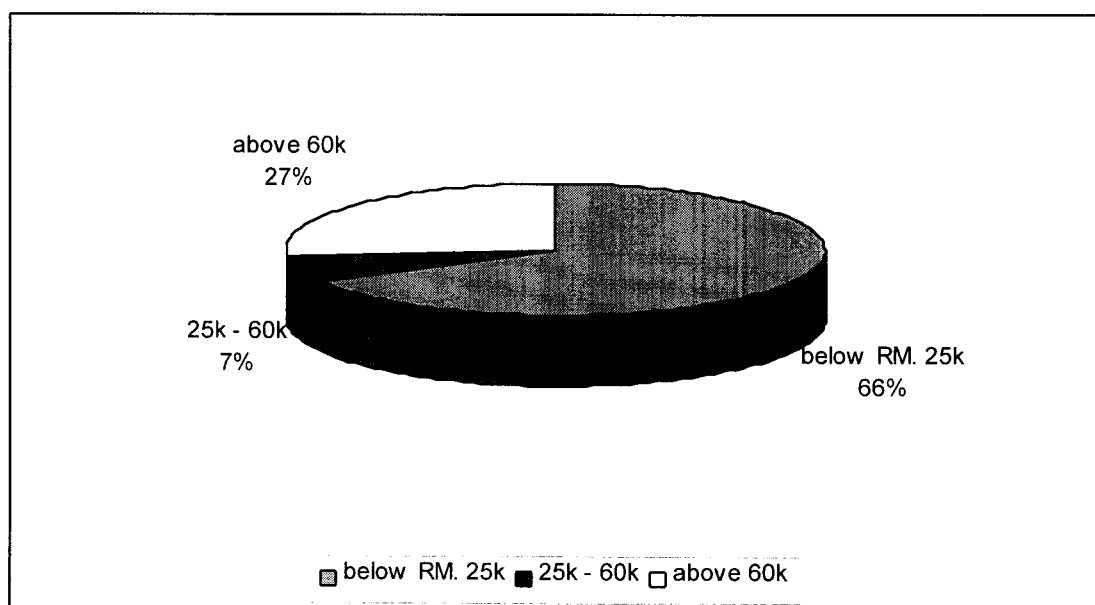
**Chart 4.8 – Age Bracket of Respondent Favouring Modified Sell-then-Build**





- (2) Annual Income Bracket
- |     |                               |              |
|-----|-------------------------------|--------------|
| (a) | below RM. 25,000.00           | Ten (66.6%)  |
| (b) | RM. 25,001.00 – RM. 60,000.00 | One (6.7%)   |
| (c) | above RM. 60,000.00           | Four (26.7%) |

**Chart 4.9 – Annual Income Bracket of Respondent Favouring  
Modified Sell-then-Build**



- (3) Job Background
- |     |                        |               |
|-----|------------------------|---------------|
| (a) | administrative         | Four (26.7%)  |
| (b) | technical/professional | Eight (53.3%) |
| (c) | supervisory/management | Two (13.3%)   |
| (d) | senior management      | One (6.7%)    |

Another interesting information gathered that must be noted is that of the fifteen who indicated this mode as their first preference, ten (66.6%) said that they belong the property development and related services/industry. The majority of the industry's insiders are prepared to consider this alternative.

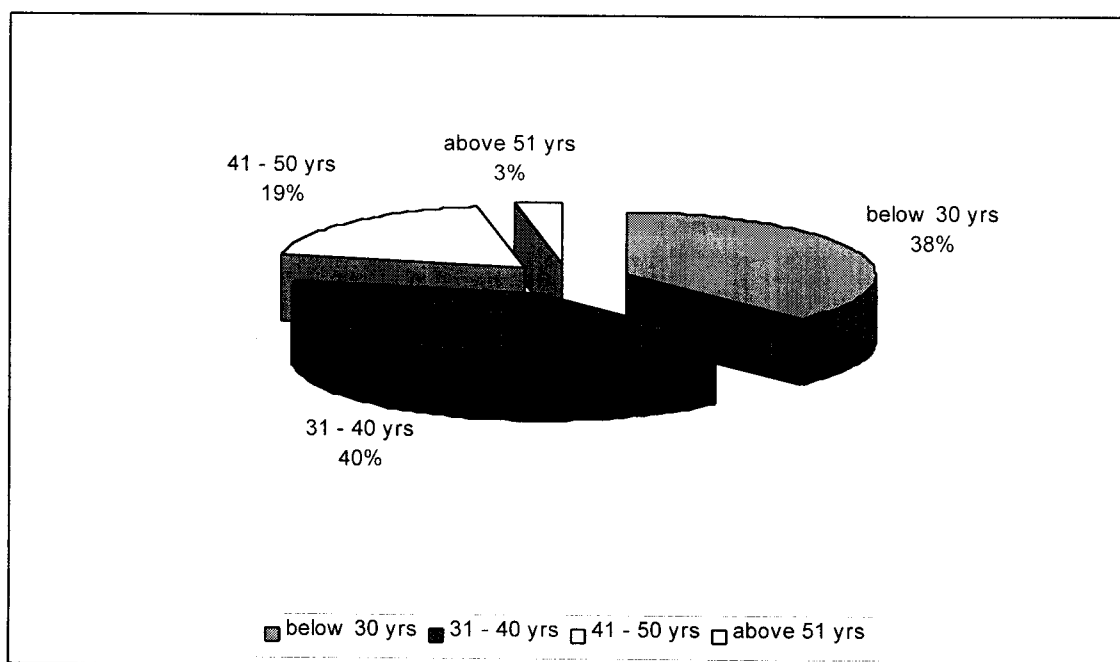
### 4.2.3.3 Build-then-Sell

The data collection programme revealed that the majority of those responded (61.5% of those responded) would prefer to buy from the developer-completed units that already have Certificate of Fitness with full payment (by them or their lending bank). Of the thirty-two (out of the fifty-two who responded), it is interesting to note the following –

(1) Age Groups

(a)	below 30 years old	Twelve (37.5%)
(b)	31 – 40 years old	Thirteen (40.6%)
(c)	41 – 50 years old	Six (18.8%)
(d)	above 51 years old	One (3.1%)

**Table 4.10 – Age Groups of Respondents Favouring Build-then-Sell**

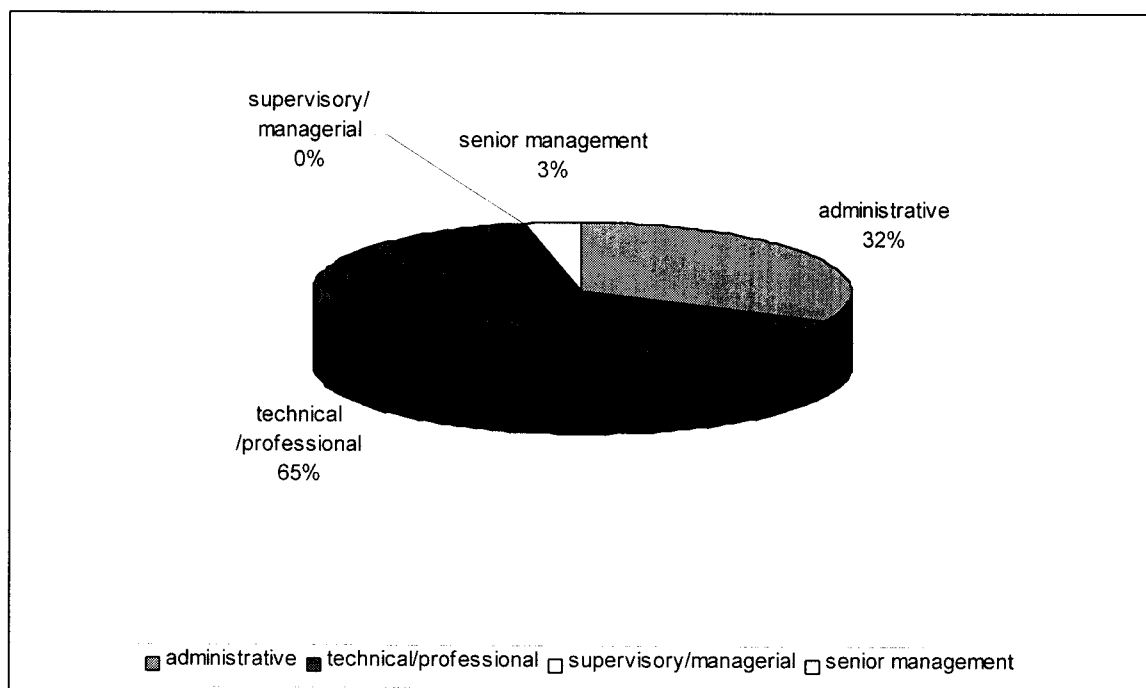


(2) Annual Income Bracket

(a)	below RM. 25,000.00	Seventeen (53.1%)
(b)	RM. 25,001.00 – RM. 60,000.00	Ten (31.3%)
(c)	above RM. 60,000.00	Five (15.6%)

(3)	Job Description	
(a)	administrative	Ten (31.3%)
(b)	technical/professional	Twenty-one (65.6%)
(c)	supervisory/management	None
(d)	senior management	One (3.1%)

**Chart 4.11 – Job Description of Respondents Favouring Build-then-Sell**



The responses indicate that the majority of the cross section of the Malaysian society within the Klang Valley prefers to buy from the developer completed unit that already has Certificate of Fitness with full payment (by them or their lending bank).

Another interesting piece of information gathered that must be noted is that of the thirty-two who indicated this mode as their first preference, fourteen (43.8%) said that they belong the property development and related services/industry. Though this data is not at all unexpected, it remains to note that significant number of the industry's insiders did choose this mode of delivery.

#### 4.2.4 Migrating towards “Build-then-Sell” Concept

In trying to ascertain whether there is a necessity for a change in the mode of delivery of residential (housing) stock, the data collection programme solicited opinions from the respondents on two key statements.

The overwhelming majority (96.4% of the responses) opined that the Malaysian property industry will need to change the way it has been delivering properties to purchasers. This is indeed a sobering insight noting that the urban Klang Valley respondents are of varying and diverse background representing the cross section of the Malaysian society.

Of the thirty-two who indicated that they belong to the property development and related services/industry, all but one (96.9%) opined that there is a need to change the present mode of delivery of residential (housing) stock.

It is also the overwhelming majority’s (94.4% of the responses) opinion that Malaysian residential property (housing) developers, in a liberalised and globalised economy, should adopt the “built-then-sell” approach. This data collection programme, at the very least, demonstrated that the urban Klang Valley respondents who are of varying and diverse background but can be considered to represent the general cross section of the Malaysian society, prefers for such an approach.

Of the thirty-two who indicated that they belong to the property development and related services/industry, all but two (93.8%) opined that in a liberalized and globalised economy, Malaysian residential property (housing) developers should adopt the “built-then-sell” concept of delivery of residential (housing) units.

It is also worthwhile to note that 21.6% of those responded (fifty-one in number) indicated that in a globalised and liberalized economy, Malaysian residential property (housing) developers should continue with the “sell-then-build” approach.

Though the general house buying public opined that the mode of delivery must change and that developers should migrate towards the “Build-then-Sell” concept, the question remains as to when Malaysian residential property (housing) developers will see the need to do so.

#### **4.3 CONCLUSION**

The questionnaire and the data collected were sufficiently adequate to meet the aim of this study. It must be noted that the entire group respondents are urbanites from within the Klang Valley. The quality of the responses provided by the respondents allowed the study to determine the general awareness with regards to the globalisation and liberalisation processes within the residential (housing) sector of the real estate industry. The preferences of the home owning public vis-à-vis the method of delivery of housing stocks and the preference for the residential (housing) sector adopting “build-then-sell” concept of delivery of housing stock were also satisfactorily ascertained.

The writer has postulated that in a globalised and liberalized environment, players with access to capacity and resources are better positioned to harness the opportunities afforded by such a marketplace. It is postulated that residential (housing) developers with access to technological and financial capacities and capabilities will be better positioned to respond to the prevailing preferences of the home owning public, which overwhelmingly prefers the “build-then-sell” concept of delivery of residential (housing) stock. This postulation is based on existing practices in developed economies.

Though the general house buying public opined that the mode of delivery must change and that developers should migrate towards the “Build-then-Sell” concept, the question remains as to whether Malaysian developers will ever see the need to do so.

In Singapore, it was observed that developers are moving with the times and have accepted what was termed as deferred payment method of purchase whereby purchasers pay 10% upon signing the Sale and Purchase Agreement and the balance 90% only paid upon vacant possession.

Foreign firms will be bigger and better financed and better able to build then sell. Since the preference of the majority is to buy ready built homes, local developers will have a major challenge on their hand.

All stakeholders will need to understand the implications and efforts necessary to brace for and face the inevitability of a liberalised real estate marketplace in general, the residential (housing) sub-sector in particular. There will be many opportunities and challenges the industry will need to address.

## CHAPTER V

### CONCLUSION

*Knowledge and timber shouldn't be much used till they are seasoned.  
(Oliver Wendell Holmes, The Autocrat of the Breakfast-table, 1858)*

#### 5.1 INTRODUCTION

The literature review, the questionnaire and the data collected were sufficiently adequate and able to meet the aim of this study. The quality of the responses provided by the respondents in particular, allowed the study to satisfactorily determined and ascertained –

- (1) the general awareness with regards to the globalisation and liberalisation processes within the residential (housing) sector of the real estate industry;
- (2) the preferences of the home owning public vis-à-vis the method of delivery of housing stocks; and
- (3) the preferences for the residential (housing) sector to adopt the “build-then-sell” concept of delivery of housing stock.

89.5% of the total number of respondents were aware of the ongoing liberalization of the national economy. 26.3% of the total number of respondents is aware that the property industry (market) is being progressively liberalized and globalised. There is thus a very high level of general awareness of the ongoing liberalisation of the national economy and approximately 1 in 4 of the respondents affirmed awareness that the property industry (market) is undergoing progressive liberalization and globalisation.

Two out of three of the respondents prefer the “build-then-sell” mode of delivery, i.e., to buy from the developer completed unit that already has Certificate of Fitness with full payment by them or their lending bank. 28.9% of those who responded preferred the modified “sell-then- build” mode of delivery where the respondents are willing to buy based on the developer’s proposed scheme and pays a 10% deposit with the balance amount paid by them or their lending bank upon issuance of Certificate of Fitness, which would mean vacant possession.

96.4% of the respondents, based on their own understanding about the ongoing globalisation and the liberalization of the property industry, opined that the Malaysian property industry will need to change the way it has been delivering properties to purchasers. 94.4% of the respondents are of the opinion that Malaysian residential property (housing) developers should adopt the “built-then-sell” approach.

The general house buying public opined that the mode of delivery must change and that developers should migrate towards the “Build-then-Sell” concept, the residential (housing) schemes are still being developed and developed on the “Sell-then-Build” mode.

In neighbouring Singapore, it was observed that developers in these recent times, probably driven by an increasingly competitive (and possibly liberalised) marketplace, moving with the times and have accepted what was termed as deferred payment method of purchase whereby purchasers pay 10% upon signing the Sale and Purchase Agreement and the balance 90% only paid upon vacant possession.



The writer has observed that foreign residential (housing) developers have honed their capabilities and capacities in their own domestic economy, in building and selling. They are also observed to be better equipped financially and technologically. Thus they are better able to build then sell. Since the preference of the majority is to buy ready built homes, local developers will have a major challenge on their hand.

In a globalised and liberalised marketplace, there will be many opportunities and challenges the industry will need to address. All stakeholders will need to understand the implications and efforts necessary to brace for and face the inevitability of a globalised and liberalised real estate marketplace in general, the residential (housing) sub-sector in particular.

## **5.2 FURTHER STUDIES**

The data collection programme was restricted to urbanites in the Klang Valley and it would be interesting to see if similar trends (opinions and preferences) exist within other urban centres, namely, Johor Bahru and Penang . This could be attained if the data collection programme was extended to these areas. It is also interesting to determine if these opinions and preferences concluded from this study represents the opinions and preferences of the home owning citizenry on a national level. This would require the study, especially the data collection programme, be extended nationwide which must ensure that respondents come from a broad spectrum of the society and locality.

Additional studies could be embarked upon to study and understand the impact of market liberalisation on the various stages of the production and delivery of residential (housing) stock in Malaysia, including but not limited to -

- (1) The acquisition/purchase of land and the application and approval of land conversion and subdivision including the subdivision of buildings
- (2) Financing, both project financing and end financing to purchasers
- (3) The relevance of the Housing Developers Act, the application and issuance of Housing Developers Licence and advertising permits.
- (4) Preparation of Plans (Layout, Subdivision, Earthwork, Infrastructure and Services, Building) and approvals of various plans.
- (5) Construction, issuance of Certificate of Fitness and vacant possession
- (6) The role of government (including local government) and its agencies (including the Foreign Investment Committee)
- (7) The various issues relating to land designated under the Malay Reservation Act.

### 5.3 MOVING FORWARD

In many instances, formulating a way forward is rather a difficult and perilous task to undertake. Thomas Watson, the Founder of IBM said, “*I think there’s a world market for about five computers*”<sup>1</sup> Richard Woolley, a U.K. Astronomer Royal in 1956, one year before the flight of Sputnik, proclaimed “*Space travel is utter bilge*”.<sup>2</sup>

---

<sup>1</sup> Watson, Thomas (*Quoted by Charles Hard Townes in Martin, Moskovits (Ed.) Science and Society, the John C. Polanyi Nobel Laureates Lectures, Anansi Press, Concord, Ontario, 1995*)

Malaysia has embarked on its journey to be part of the global marketplace with various policies and initiatives that are clearly evident. As a trading nation, there is no turning back on this journey.

Without trivializing the globalisation process, it could be readily observed that there are essentially two key elements. The first being the element of trade negotiations and its much-publicized meetings and summits, the second is about maintaining competitiveness to ensure comparative advantage.

### **5.3.1 Trade Negotiations**

Malaysia is an active participant in the World Trade Organization and regionally, in APEC and the ASEAN Free Trade Area including the ongoing negotiations within the ASEAN Framework Agreement on Services. Mandated negotiations at the Council of Services at the World Trade Organisation are underway.

The real estate industry must begin substantive work in this respect and participate actively in various committee meetings and forums including the ASEAN Co-ordinating Committee on Services. The Committee oversees the negotiation process conducted sectorally and bilaterally on the basis of offer and request – the traditional GATT approach. The first round of negotiation was launched subsequent to the signing of the AFAS and Malaysia has already made specific commitments. The second round of negotiation was concluded at the end of 2001 and the third round of negotiation is in progress and is to be completed towards the end of 2004. Real estate services are being scoped for liberalisation.

---

<sup>2</sup> Woolley, Richard (*Quoted by Charles Hard Townes in Martin, Moskovits (Ed.) Science and Society, the John C. Polanyi Nobel Laureates Lectures, Anansi Press, Concord, Ontario, 1995*)

### 5.3.2 Maintaining Competitiveness

Competitiveness has been identified with globalisation as all debates and discussion seemingly reduces itself to the merits and benefits of being competitive. The perception is that in a competitive environment, cost will be reduced - cost to government, cost to businesses as well as cost to consumers. Consequently, all stand to gain – such is the conventional wisdom. The competitiveness in the real estate industry should be a concern as it is dependent upon factors such as the quality of its available skills, its capacity, its creativity and innovation, its capacity to take risks and its entrepreneurship and corporate governance.

It is fair to observe that increasingly, the real estate industry is being dominated by larger players though there will always be room for the small niche players, especially those that are highly competent, focused and market leaders in their area of specialization. For those who aspire to be part of the global marketplace, efforts must be made to consolidate one's scarce resources, primarily – human, technological and scientific and financial capital. The underlying motivation for such consolidation is the drive towards economies of scale and the elimination of duplication and wastage. Big is not necessarily better. However, the ability to command substantial capacity and capital could win the day.

## 5.4 EPILOGUE

Prof. Stig Enemark and Frances Plimmer opined that “Globalisation of services is not a threat. It should be seen as an opportunity and as a demand to develop new means and tools to meet the challenges of the future”<sup>3</sup>

The Ministry of International Trade and Industry in its bulletin entitled “Enhancing Public-Private Sector Cooperation” commented –

---

<sup>3</sup> Enemark, Prof. Stig and Plimmer, Frances (*Mutual Recognition of Professional Qualifications in the Surveying Profession: Paper presented at the Quo Vadis Conference, FIG 2000 Working Week, Prague, Czech Republic, May, 2000*)

*“As industry expands its operations regionally and globally and competition intensifies, new issues and challenges emerge which may require bold, unorthodox measures to deal with them. Some of these challenges are:*

- (i) enhancing national competitiveness in a borderless world;*
- (ii) attracting quality investments;*
- (iii) building new technological capabilities; and*
- (iv) integrating the small and medium industries into the mainstream of industrialization”.*<sup>4</sup>

Mohd Razali Agus (1997) opined that new construction technologies should be adopted, especially if they complement the labour-intensive conventional construction system. Local entrepreneurship and innovation should be encouraged and supported in this area. All sectors have a valuable role to play in establishing an efficient and productive national development strategy.

Mohd Razali Agus (1997) further intimated that the federal government should formulate a comprehensive national housing and urban development policy and implemented as soon as possible. This policy should incorporate all sectors such as the public, private and informal sectors so that the objectives and goals of national development policies could be more meaningful and beneficial.

The degree to which the real estate industry prepares, progresses and prospers in the globalised and liberalised marketplace in this millennium will depend on the industry's abilities to understand the times and translate that understanding into a dynamic and strategic institutional development policy and plan.

The industry must recognize that real estate (property) is an asset and a resource that needs to be carefully managed. An efficient real estate market would

go a long way towards this cause. There is a need to formulate a National Real Estate (Property) Policy and Agenda<sup>5</sup> and the Policy and Agenda should encompass clear statement on –

- (i) the direction with regards to the long-term management of the real estate (property) resource. (This would enable policy makers, market players and consumers to plan and strategies over a longer period of time thus creating great stability within the industry);
- (ii) the importance of a uniform land administration procedures and processes
- (iii) a coherent national land and property information infrastructure that is geographically based, delivering accurate and timely information.

The process of globalisation would involve adjustments that can give rise to concerns or even risks to the social and environmental fabric of a society. There should be -

- (i) learned and objective analyses and studies on the effects and impact of globalisation on the industry.
- (ii) consensus-building process involving government, industry and the public at large.
- (iii) greater consistency in rules and regulations to allow both the businesses and the consumer to take full advantage of new opportunities that present itself.
- (iv) greater coordination of efforts within the industry.

---

<sup>4</sup> <http://www.miti.gov.my/focus3c.htm>

<sup>5</sup> The Institution of Surveyors Malaysia's Memorandum to Majlis Perundangan Ekonomi Negara Kedua, 2000

If trade liberalization is carried out inappropriately in countries that are not ready to cope or face conditions that are unfavourable, it can contribute to a vicious cycle of trade and deficit balance of payments, financial instability, debt and recession.

## BIBLIOGRAPHY

### BOOKS

- Cagamas Berhad (1997), "Housing The Nation – A definitive Study"
- Consumers Association of Penang, "Understanding Globalisation – How it affects our lives"
- Cowie, A.P (Editor), "Oxford Advanced Learner's Dictionary, Fourth Edition",  
*Oxford University Press*
- Drury, Colin (1990), "Costing – An Introduction", *Chapman & Hall*
- Dunning, John H and Khalil A Hamdani (Editors) (1997), "The New Globalism and Developing Countries", *United Nations University Press*
- Ismail Omar (1992), "Penilaian Harta Tanah", *Dewan Bahasa dan Pustaka, Kuala Lumpur*
- Khor, Martin (1993), "South –North Resource Flows", *Third World Network*
- Khor, Martin (1998), "The Economic Crises in East Asia: Causes, Effects, Lessons",  
*Third World Network*
- Khor, Martin (2000), "Globalization and the South – Some Critical Issues", *Third World Network*
- Mahathir Mohamad (2002), "Globalization and the New Realities", *Prime Ministers Office of Malaysia*
- Norani Othman & Sumit K. Mandal (Editors) (2000), "Malaysia menangani Globalisasi – Peserta atau Mangsa?", *Penerbit Universiti Kebangsaan Malaysia*
- Phillips, Estelle M and Pugh, Derek S (2000), "How to get a PhD", *Open University Press*
- Ratchiffe, John & Stubbs, Michael (1996), "Urban Planning and Real Estate Development", *UCL Press Limited*
- S.M. Mohamed Idris (2001), "Globalisation and The Islamic Challenge", *Teras*



## **INTERNET**

[www.apecsec.org.sg/97brochure/](http://www.apecsec.org.sg/97brochure/)

[www.globalize.org/lexicon.asp](http://www.globalize.org/lexicon.asp)

[www.oecd.org/ech/events](http://www.oecd.org/ech/events)

## **NEWSPAPERS**

“Trade: WTO Prescribes More Liberalisation to Reduce Poverty”, Inter Press  
Service, June 19, 2000

“S.E. Asia slowing down on liberalisation efforts: Report”, Sunbiz, July 24, 2000